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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1990

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

H.R. 2939/H.R. 3743

AN ACT MAKING APPROPRIATIONS FOR FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1990, AND FOR OTHER PURPOSES

Part 1 (Pages 1–1097)

AFRICAN DEVELOPMENT FOUNDATION
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEFENSE AGENCIES
DEPARTMENT OF STATE
DEPARTMENT OF THE TREASURY
EXPORT-IMPORT BANK
INTER-AMERICAN FOUNDATION
OVERSEAS PRIVATE INVESTMENT CORPORATION
PEACE CORPS

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

WEDNESDAY, MARCH 15, 1989

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 9:37 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, Lautenberg, Kasten, Hatfield, D'Amato, Rudman, and Specter.

DEPARTMENT OF STATE

Secretary of State

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF STATE

OPENING REMARKS OF SENATOR LEAHY

Senator Leahy. Mr. Secretary, I want to welcome you to the Foreign Operations Subcommittee. This is your first appearance before this subcommittee as Secretary of State. It is our first hearing of the new budget cycle. It is my first hearing as chairman, an assignment I take with great and deep appreciation of Bob Kasten and Dan Inouye, previous chairmen of this subcommittee, both of whom aged considerably during their tenure. I did my aging before I got here, so I don't have to worry.

Before we go to the fiscal year 1990 request, Mr. Secretary, I would like to say a word about my plans as chairman of this subcommittee. We have a tentative hearing schedule that has been made available to all the members. It speaks of completion of our hearings by mid-June so that we are on schedule to report our bill to the full committee before the end of June. That is in accord with the schedule laid down by the full committee chairman. We are going to do our best to keep to it. Of course, that can be affected by events outside our control.

In addition, I would say to the members that I hope our subcommittee can focus on some of the major policy issues involved in the foreign operations appropriation. We have a responsibility to the American people to take a hard look at what use our Government is making of their money and whether results in terms of policy accomplishments justify spending this money abroad rather than here at home.

So, in that vein, I plan to look at Central American policy issues in connection with our review of programs in that region.

I am also considering a joint hearing with the Agriculture Committee on global environmental issues, especially the problem of global warming. Our subcommittee has a strong interest in that issue, as does the Agriculture Committee.

I want to pursue the theme of accountability in every hearing we have. We have all seen reports about waste, fraud, and abuse in foreign aid programs. I am concerned about some of the signs of mismanagement, incompetence, and disorganization. We owe it to the American taxpayer to hold accountable, and expect results from, those to whom we entrust foreign assistance money. I intend to do that and, I think it is safe to say, Mr. Secretary, I'm sure you feel the same way.

This is not an all-inclusive list, but I want to mention my deep concern about human rights. The law says U.S. foreign aid is not to be given to countries which engage in or tolerate gross human rights abuse. We have annual reports from the State Department detailing patterns of human rights abuses, but our aid continues. I believe our subcommittee has to press administration witnesses hard on why we're giving assistance to nations widely identified as problem human rights abusers.

I look forward to working with you, Mr. Secretary, to put together a good foreign assistance bill. There is no need to emphasize to you the difficulties, political and budgetary, this bill faces this year. Chairman Obey gave you a sequestered foreign aid bill with a $1 billion cut at yesterday's hearing. I think he gave you an open-ended offer to take out anything that he put in the bill and replace it, but in any event, it is still going to come out $1 billion less.

We are not going to do that to you here today. Not because we don't believe that there is an extraordinarily difficult situation that we face, because we do. We are not threatening to sequester a foreign aid bill because we want to give the budget negotiations between Congress and the executive branch a chance. It is my hope that you will be an active participant in those negotiations. We will work hard for a foreign aid level that protects our national interests because if it doesn't work, we actually do end up with what Chairman Obey suggested yesterday: a sequestered bill.

The President has asked for $14.6 billion for foreign aid. That is up 2.5 percent from the fiscal year 1989 level of $14.3 billion. But the real increase is actually a lot more than that. The President's budget contains no funding for the direct loan program of the Export-Import Bank. Congress has always supported funding Export-Import direct loan programs in the past, and there is no question that Congress will again.

So, the questions that most interest this subcommittee today is what your priorities are in this bill. How can you defend it in the current budget climate? We have to meet the Gramm-Rudman-Hollings targets and reduce the Federal deficit. The President has said no new taxes, and I believe him. But he is asking for an increase in foreign aid.

Therefore, we don't have more money, but we have an increase in foreign aid. Where does it come from? Out of domestic programs or out of other areas of the Federal Government? If you can, tell us how to reconcile these two conflicting goals of reducing the deficit and increasing foreign aid during the same year.

You served ably as Secretary of the Treasury. Now you are Secretary of State. You have always been considered one of the most persuasive members of the administration to come up here. After Senator Kasten's opening statement, please tell us just how we're going to do all this.

Bob.

Senator **Kasten**. Mr. Chairman, thank you.

Mr. Secretary, I would like to join the chairman in extending a warm welcome to you. This isn't your first appearance before our subcommittee, but it is your first appearance in your capacity as Secretary of State, and we welcome you in that new capacity.

Mr. Secretary, because you are familiar with this subcommittee, you know that over the years we have been one of the unusual bodies in Congress which has consistently taken a bipartisan approach to foreign policy matters.

I have every reason to believe, based on my past working relationships with our chairman and also on extensive discussions that we have held so far, that the bipartisan spirit and the bipartisan effort of the members and staff on this subcommittee will continue. I'm optimistic about that.

In order to assure that outcome, we're going to need your cooperation and that of your staff and other officials in the Department of State.

So, Mr. Secretary, I look forward to working with you, and with the senior Senator from Vermont on the important issues which face us. And I believe that we will go forward in a very bipartisan and a very cooperative fashion.

Mr. Chairman, I thank you.

Senator **Leahy**. Thank you, Bob.

Mr. Secretary, I know you have a number of things you would like to tell us. Your full statement will be made part of the record, but please feel free to highlight as much of it as you would like.

OPENING REMARKS OF HON. JAMES A. BAKER III

Secretary **Baker**. Mr. Chairman, thank you very much. Let me start by saying that it is a pleasure to be here this morning. I have always found it a pleasure frankly to work with this committee. Even though I have never worked with it in the capacity of Secretary of State, I worked extensively with it, as Senator Kasten mentioned, in my prior incarnation as Secretary of the Treasury. I would like to tell you I very much appreciate your initial words of welcome.

BIPARTISAN FOREIGN POLICY

I very much agree with what Senator Kasten said, Mr. Chairman, about how this committee has operated in the past, and I think over the past number of years when bipartisanship was somewhat strained in other areas up here on the Hill and perhaps downtown as well, this committee really did operate as a model of bipartisanship, and there was a great deal of cooperation between Republicans and Democrats and, frankly, between the legislative branch and the executive branch as well. And I look forward to doing my share to contribute to the continuation of that tradition.

I take note of your statement, Mr. Chairman, that you are new here this morning and I'm in a new capacity here this morning. Perhaps both of us have done our aging before we got here, but I want to say personally that I welcome your chairmanship and look forward to working with you and would take note of the fact that you are now engaged in the Lord's work, and together I hope we can make it productive.

I have just returned a week or so ago from the opening of the conventional arms negotiations in Vienna, Mr. Chairman. Around the fringes of that meeting, I had a very productive session, the initial session, with the foreign minister of the Soviet Union.

I have also returned several weeks ago from a trip to three countries in Asia with the President of the United States: People's Republic of China, Japan, and Korea.

And prior to that, of course, I visited the capitals of all of our NATO allies in keeping with the President's campaign commitment during the recent Presidential election where he said he wanted his Secretary of State to visit with his NATO counterparts before sitting down with the Soviet Union.

I mention these things only because I would be pleased, during the course of the hearing this morning, should any of the members of the committee wish to delve into those meetings, to answer questions about anything that took place during the course of those meetings.

Let me now, if I might, Mr. Chairman, ask that the written testimony be submitted for the record, and let me say a word or two about the highlights of our funding request for 1990.

FISCAL YEAR 1990 BUDGET REQUEST

For the full 150 function, we are asking $19.3 billion in discretionary spending with, as you pointed out, the level for the Export-Import Bank to be determined in negotiations between the executive branch and the Congress, and that applies, as you pointed out, specifically and primarily to the direct lending program of the Export-Import Bank.

So, if I may say so, international affairs spending overall takes less than 2 percent. I am sure you know this, but I would like to say it for the record. It takes less than 2 percent of the total Federal budget. So, in submitting our request, we really don't think that we are imposing an unreasonable burden upon the American people or upon the resources of the American people. Quite the contrary, we are asking for what we think is an investment to secure our vital national interest and to secure a peaceful future for the United States of America.

The foreign operations component of our budget request includes most forms of foreign assistance excluding, of course, Public Law 480 programs. And it is the single largest component of our request as a whole. The funds that we make available under this heading help our friends and allies abroad. But first and foremost, they serve America's own interests abroad.

I might interject here, Mr. Chairman, that we all know that there is not a big political constituency that supports some of these programs, and it is very easy oftentimes to argue against foreign aid as juxtaposed against some sort of domestic aid or assistance. But I think it is important at the outset that we recognize that these programs are programs that serve vital national security and foreign policy interests of the United States.

We are asking for a total of $14.6 billion, Mr. Chairman, for foreign operations. The discretionary element, that is to say, funding for everything except the guarantee reserve fund and the foreign service retirement, totals $13.9 billion, or 74 percent of the administration's entire request for foreign affairs appropriations. This represents an increase of less than 4 percent over the fiscal year 1989 level.

Let me, if I can, put this in somewhat broader perspective by relating the resources that we are seeking here this morning to our specific foreign policy agenda.

NATIONAL SECURITY

Of course, many of our friends in the developing world lack the resources to ensure their national security and to provide for the basic economic and social needs of their people. Because they must do both to survive and to grow as free societies with values and institutions which are compatible with those we enjoy here in the United States, we give them economic support and we help finance the modernization of their armed forces. At the same time, we encourage developing countries not to overinvest on the military side.

For 1990 our total request for discretionary security assistance funding, antiterrorism assistance, and peacekeeping operations is $8.5 billion, a $400 million increase over fiscal year 1988 and fiscal year 1989. Despite this increase, Mr. Chairman, what we are seeking for security assistance is less than the level which was appropriated in fiscal year 1987. The cuts from the levels provided in fiscal year 1985 and fiscal year 1986 are even deeper yet.

For the first time, we are not seeking an allocation of MAP funds for specific country programs. Instead, we are combining the MAP and FMS programs and requesting that the total, which is approximately $5 billion, be provided in the form of FMS grants.

Use of FMS in lieu of MAP will enable countries capable of doing so to apply defense assistance to commercial purposes. The all-grant program initiative is part of our effort to strengthen new, fragile democracies and to ease the financial burden of countries whose economic health is vital to our own.

Israel and Egypt will receive, of course, the largest share of our security assistance in fiscal year 1990, or $5.1 billion. This underscores the importance of the Middle East to the United States, and it underscores as well the central role which Israel and Egypt must play in bringing peace to that troubled region. Solid economic growth in these countries is essential to our effort.

In addition to the funds for Israel, Egypt, and the occupied territories, we are also requesting $206 million in security assistance for

Tunisia, Jordan, Oman, and Morocco, and $12 million for the West Bank and Gaza.

Security assistance is also used to strengthen the defense capabilities of friends and allies which provide us with access to military facilities in the interest of their own security and in the interest of American security. In recent years, budgetary stringency and extensive earmarking have hampered our ability to provide necessary support to these countries.

For Portugal our assistance is well below the best efforts commitment that we undertook when we signed our current base agreement with the Government of Portugal.

Assistance to Turkey is already hundreds of millions of dollars below the level necessary if that country is going to meet its NATO requirements.

And assistance to Greece has fallen one-third below the level provided following the signing of our 1983 base agreement.

For fiscal year 1990, we are requesting $1.1 billion in security assistance funding for these three countries, an increase of 7 percent over the level appropriated in fiscal year 1989. This is not adequate to make up for past shortfalls, in our opinion, but it will help.

The Philippines also provides us with access to military facilities important for our political and strategic interests in the Pacific. Our assistance program for that country is directed toward helping a struggling ally revitalize and strengthen its democratic institutions. Last year we successfully completed a review of our bases agreement with the Philippine Government which sets the stage for an extension or renegotiation of the agreement, the fixed term of which will end in 1991.

Separately we are also requesting $200 million as a U.S. contribution to a proposed multilateral assistance initiative. This initiative is designed to help the Philippine Government reorient its economy for sustainable growth led by the private sector. The program, which is based on a congressional initiative, has strong bipartisan support. Both Speaker Wright and Senate Minority Leader Dole appeared before the House Foreign Affairs Committee's Asia Subcommittee March 7 to endorse our fiscal year 1990 request. The $200 million that we seek for the multilateral assistance initiative is an investment in democracy, Mr. Chairman, and it is an investment as well in market-oriented economic growth.

PROMOTING PROSPERITY AND DEVELOPMENT

When we assist other countries to develop their own economies, it is also our view that we develop markets in the global economy for U.S. goods and services. The current economic stagnation in a large number of developing countries, especially those with heavy debt burdens, illustrates the point I think vividly and painfully.

For example, between 1981 and 1987, economic growth in 17 heavily indebted middle-income developing countries averaged only 1 percent a year. In the same period our exports to those nations dropped by over $9 billion, or 24 percent.

Economic stagnation in these countries, as well as in countries of sub-Saharan Africa and the Middle East, led in our view to a $13 billion decline in United States exports to developing countries as a group.

Of course, foreign assistance is far from the whole answer to the riddle of how to restart the growth process in many of these countries. We also need to continue our efforts to liberalize trade worldwide and to further examine the role which debt policy can play. Most importantly, though, we need to continue encouraging the developing countries to adopt market-oriented policy reforms.

For fiscal year 1990, we are requesting $6.1 billion in discretionary appropriations for economic assistance, or $9.4 billion when our $3.35 billion request for the economic support fund is included. Our ESF request represents an increase of only $73 million, or 2 percent over the level appropriated in fiscal year 1989. That is not enough to keep up with inflation.

In addition to ESF, of course, as you know, economic assistance takes many other forms: development assistance, funding for the multilateral development banks, funding for Peace Corps programs, voluntary contributions to such international organizations as the U.N. development program, UNICEF, and the new Afghanistan emergency trust fund.

PROMOTING DEMOCRATIC AND HUMANITARIAN VALUES

American security, Mr. Chairman, does not depend exclusively on our military and economic might and our resolve to use them effectively, as important as those factors might be. We rely also on the presence of a community of nations whose behavior toward each other is marked by civility and whose institutions and values are compatible with our own. The process of strengthening such institutions and values is a slow process and oftentimes it is a difficult one. Fragile new democracies face daunting challenges. They need and they deserve from us more than simple words of encouragement.

In Central America and in the Caribbean, democratic institutions are taking root in countries where just a few years ago many despaired of that ever happening. These new democracies desperately need our help. This administration believes it is essential to continue efforts such as the Caribbean Basin Initiative and others. For fiscal year 1990, we are requesting $735 million in economic assistance for Central America and $206 million for the Caribbean.

Over the past few years, the assistance we have provided has meant the difference between life and death for literally millions of Africans who faced the worst drought and famine the continent has experienced in this century.

Last year aid from the United States to victims of drought and civil strife was focused on Ethiopia, the Sudan, and Mozambique. In all we provided emergency assistance in some 60 disasters last year. We helped Bangladesh. We contributed to major earthquake relief efforts in Nepal and most recently, of course, in the Soviet Union. And we helped combat locust infestations in 17 separate African countries.

Mr. Chairman, I think we can be proud of America's record of assistance to the world's refugee populations. The United States leads the world both in providing financial assistance to refugees overseas and in resettling refugees in our own country. For fiscal year 1990, we are requesting $370 million for migration and refugee assistance and $10 million for the refugee emergency fund.

In administering our refugee admissions program, we have recently encountered pressures never anticipated by the drafters of the Refugee Reform Act a decade ago. In particular, over the past year, we have been attempting to deal with the totally unprecedented exodus of tens of thousands of people from the Soviet Union, Eastern Europe, Cuba, Nicaragua, and Southeast Asia. We intend to work closely with the Congress, Mr. Chairman, to achieve a new consensus, one which will be both humane and responsible insofar as our refugee policies and programs are concerned.

INTERNATIONAL NARCOTICS TRAFFICKING AND TERRORISM

International narcotics trafficking and terrorism are the twin scourges of our modern age. They pose a particular threat to open and democratic societies. This administration, like its predecessor, the Congress and, above all, the American people agree that we have to combat these twin scourges with all the responsible means at our disposal.

As we have seen in Colombia and in Panama, international narcotics trafficking poses a threat not only to the health and welfare of our citizens, but to the security of free people throughout the world. And that threat unfortunately continues to grow.

For fiscal year 1990, we are requesting $115 million for international narcotics control which is a significant increase, 14 percent, over the amount appropriated for fiscal year 1989. This includes $75 million in direct assistance to Colombia, Bolivia, Peru, Ecuador, Mexico, Venezuela, and other countries in Latin America and Asia. It also includes $28 million to support aerial and manual eradication of drugs.

These programs constitute only a part of our total effort to control international trafficking in narcotics. Economic and military assistance is also important in this effort, as well as our participation in United Nations narcotics control activities. For fiscal year 1990, we are requesting almost $200 million to assist the four Andean democracies, Colombia, Ecuador, Bolivia, and Peru, whose social fabric and democratic institutions are threatened by the growing power of narcotics traffickers.

Through long and often bitter experience, we are developing more effective policies and programs to deal as well with the scourge of international terrorism. U.S. programs to enhance the counterterrorism skills of other nations include training and provision of equipment and logistical support.

THE NEED FOR FLEXIBILITY

Mr. Chairman, as I noted earlier, we look forward to working with this and other committees to produce a more flexible and efficient foreign assistance system. We must reverse the trend toward more reporting requirements, earmarks, and restrictions. Earmarks are especially harmful, Mr. Chairman. The combination of earmarks and cuts made in our request have forced us to significantly underfund security assistance programs for some important friends and some important allies. If we are to maintain reliable friends around the world, the United States of America must be a reliable friend ourselves. In the last several years, our reliability has been questioned. This is not good, Mr. Chairman. It is not good for our friends and allies, and it is not good for America.

If the needed flexibility can be achieved, then the levels in our fiscal year 1990 budget request will enable us to fund on a modest scale programs which we have sharply curtailed in recent years. In my view this is essential. No foreign policy, however intelligent, can be meaningful without the resources to do the job. That is what we are asking for here today.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF JAMES A. BAKER III

Mr. Chairman, members of the committee, I am honored to appear before you as Secretary of State to discuss the main lines of our foreign policy and our fiscal year 1990 foreign assistance request in support of that policy.

In my confirmation hearing, I noted that America is vastly different from the country we knew even as recently as the beginning of this decade. Then American values and institutions were being questioned. Eight years of the Reagan era, however, have reaffirmed them. As a consequence, America today is a more vibrant and stronger nation. We have demonstrated once again that our form of Government works and that progress is possible in a setting which encourages the creativity of the individual and respects his or her rights.

Some of that vibrancy is reflected in international developments of our time. Our most powerful foe, the Soviet Union, so aggressive a decade ago, is undergoing a soul-searching of historic proportions. Democracy is continuing to take root and grow around the world on an impressive scale.

Regional conflicts long thought to be intractable have begun moving toward resolution with the help of creative American diplomacy. And the international economy, driven by the longest American peacetime economic expansion on record, has provided new hope for progress.

Still, while there is every reason to look to the future with optimism, it would be a serious mistake to assume that continued progress is assured. In my confirmation hearing I enumerated five major transformations underway—the democratic revolution, the spread of free enterprise, major changes in the communist world, rapid changes in technology, and changing strategic-military relationships. There are trends to be found in each case favorable to our interests. But there is and can be no reason for complacency. Every one of these transformations holds within it a contrary trend that could set us back.

We could advance toward an increasingly democratic world, or, if fragile democracies fail, the cause of freedom could be set back. The international economy could continue to grow, or the stresses of competition could lead to protectionism and rival trading blocs—ultimately to the disadvantage of all. A properly conceived approach by the Atlantic Alliance could extend the progress we have made with the Soviet Union. Or, through mistakes on either side of the Iron Curtain, this opportunity could be lost.

Finally new military technologies could provide greater stability at lower levels of forces. Or, we could encounter a new and darker age if we cannot halt the spread of weapons that put nations on a hair trigger particularly in politically unstable regions.

How should we approach this rapidly changing world? As a conservative and a realist, I believe our policy must always be guided by the basic American principles to which I adhere—freedom, democracy, equal rights, respect for human dignity, fair play. And I am convinced that we can advance these values if we are resolved on two issues.

The first is the necessity for American leadership. As the most powerful democracy, the largest economy, the wealthiest society with the greatest concentration of scientific talent, we are going to substantially affect the course of human events whether we do so consciously or not. We can be a force for freedom and peaceful change unlike any other in this world. But if we fail to do so, we will not be able to run or to hide from the consequences.

Second, the Executive and the Congress must approach foreign policy in the spirit of bipartisanship. This does not mean that we will not have our differences.

Airing those differences in a manner that respects the right of others to disagree is a strong affirmation of the democratic process. But eventually we must proceed, and when we do it is best that we do so together if we are to achieve the national interest.

Recent experience affirms this lesson. When we held the line together, on Afghanistan, for example, and throughout the INF negotiations, we succeeded. When we did not—as in Central America—the outcome was unsatisfactory to everyone.

In the course of my confirmation testimony, I said that trust, consultation and consistency were essential to bipartisanship. Surely the crucial outcome of that process is a decision to go forward, not only with united purpose but also with sufficient resources. To put it plainly, we must put our money where our mouths are.

That is the context in which we should discuss the International Affairs Funding request. Over the past several years, we have all come to recognize two facts: first, discretionary budget authority for international affairs has actually declined from a high of $26.3 billion in 1985 to about $18.3 billion in 1989. As a percentage of GNP, economic assistance outlays during 1989 will be at an all-time low, less than three-tenths of 1 percent. Second, the existing efforts are hampered increasingly by reporting requirements, earmarks and restrictions. For example, we now have over 400 reporting requirements throughout the foreign assistance legislation. So at the very time when we all agree on the importance of American leadership, when we all agree that we face a rapidly changing world, we have to reverse the trend toward less flexibility in the management of foreign assistance.

With this in mind, I welcome the Report of the Task Force On Foreign Assistance, chaired by Lee Hamilton and Ben Oilman. As I told the House Foreign Affairs Committee, we are reviewing the report's's recommendations, but on the whole it's a very good piece of work. We do need a change in the system, to make it more flexible, more accountable and above all, more effective. We look forward to working with the Congress in shaping legislation that best serves our vital national interests.

Armed then with the conviction of American leadership and the practice of bipartisanship, let us together—the Executive and the Congress—tackle the formidable agenda before us.

THE INTERNATIONAL AGENDA: THE AMERICAS

First on that agenda is our neighborhood—the countries of our hemisphere.

We share with Canada a border extending over 5,000 miles. And while we have our differences from time to time, as all nations do, that border has long facilitated peaceful contact between peoples sharing similar values and outlook, as well as commerce on an enormous and growing scale.

Recently, working with Canada, we achieved a Free Trade Agreement. In my view, the Agreement is in our mutual interest. Moreover, by showing how free trade policies can catalyze bipartisan coalitions and turn back the forces of protectionism, it also represents a signal success in a strategy designed to move nations toward a more open trading system. And we look forward to working with Canada on other important issues, including international environmental problems, as we extend the range of our cooperation.

To the South, we have equally significant issues to consider. Our neighbor Mexico is deeply in debt and faces serious challenges to its social fabric. But Mexico also has many assets—the capabilities of its people and its significant natural resources. The Mexican Government, led by President Salinas, is taking the difficult road of economic and political reform. We are determined to help.

I'd like to reiterate the suggestion I made in my confirmation hearing. In 1992, we will celebrate the 500th anniversary of Columbus' voyage of discovery. Let's mark that event now by embarking on a voyage of rediscovery—of the Caribbean and of South America. This is the centennial year of the Inter-American system. Our neighbors are engaged in a quest for greater freedom and economic progress. We share many of their interests. And, together we also face the scourge of drugs. Now is the time to take a fresh look at these problems.

In Central America, we have had nearly 10 years of frustrating and sometimes contradictory American policies. There have been some successes. Most Central American nations are more democratic and respectful of human rights than they were. Still, the overwhelming blemish remains: the terrible draining conflict between Nicaragua and her neighbors and between the Nicaraguan Marxists and their own people, some of whom have taken up arms and merited American support.

In 1987, the Governments of Central America signed the agreement known as Esquipulas II. Later, the Sandinistas and the Democratic resistance concluded the Sapoa Agreement. The principles embodied in Esquipulas and Sapoa are good. They are right. Together Esquipulas and Sapoa constitute a good platform for peace. What's lacking is a mechanism for enforcement to translate these principles into reality.

We are working to develop a strategy in consultation with Congress, the Central American democracies, and our allies. It's a strategy composed of several different parts. It identifies essential democratic standards and outlines the timeliness by which the Sandinistas and others should comply with them. It develops incentives for meeting those standards by the specified time and sets disincentives or sanctions in the absence of compliance. It proposes different kinds of monitoring mechanisms for determining compliance. Taken together, the elements of the approach offer an integrated strategy that gives diplomacy a chance.

A unified bipartisan approach in this country is essential achieve our objectives. Such an approach will certainly increase our leverage. Working with the Central American democracies, key friends in South America, and our allies in the European Community, I'm confident we can build the pressure on the Sandinistas to live up finally to the promises they've made. We will not abandon the Democratic Resistance as we give diplomacy a chance.

TRANSFORMATION OF OUR ALLIES AND FRIEND

Let me move now from our neighborhood to the broader world of our friends and allies. The United States links together two highly dynamic, advanced regions—Western Europe and the Pacific. We are at once an Atlantic and a Pacific power, and there should not be any thought to expand one relationship at the expense of the other.

Our friends and allies in both regions are experiencing great changes. Western Europe today is a far cry from the exhausted continent which emerged from World War II. On the basis of my trip to the NATO capitals, I believe that we are beginning to develop a new appreciation on our side and theirs of how we can adapt to these changes and to a different world.

I found a great consensus, at least in general terms, on how we should deal with a changing Soviet Union. I found a recognition that we will need a common approach to the new military facts created by the INF Treaty—the need to refine a comprehensive concept on security, modernization and arms control. That concept must also develop a better basis for sharing responsibilities.

We also talked on my trip about how we, the U.S. and its western European friends, can work better to respond to the enormous economic changes which are taking place in the Atlantic region. In only 3 years, the Common Market will achieve the objective of the 1957 Treaty of Rome which established it—a single market. I emphasized that the new Europe—this rising economic superpower—must be outward and not inward looking. I noted also that as an ally and a major trading partner, the United States will take a keen interest in this transformation.

Turning to the Pacific Rim, we find a striking success already in the making. No other area has created such advanced economies in such a short time.

Our relations with the Pacific—as with Europe and our own continent—must emphasize outward-looking economic policies that promote trade and growth. I do not underestimate the challenge in Asia, or in other regions, of achieving free and fair trade. After nearly a decade when the American economy has driven international growth, we all face a changing world. The rule that success brings responsibility will find a fuller expression as the Pacific nations assume more important economic and political roles.

We have vital political and strategic interests in the Pacific as well. These interests are well-served by military capabilities based in Japan, the Philippines and Korea—and by our close cooperation with these nations. We must enhance that cooperation while shouldering common defense and development responsibilities.

During the President's recent trip to the Far East, he emphasized these points with the leadership of Japan, the People's Republic of China, and the Republic of Korea.

Our relationship with the People's Republic of China, important in its own right, also contributes strongly to the overall stability of the international political order. President Bush was well-received in Beijing and it is clear that his extensive, personal experience in China will facilitate the expansion of our important and multifaceted ties.

TRANSNATIONAL ISSUES

The future of our civilization also demands that we act in concert to deal with new transnational issues. Technological advances have brought enormous benefits. But at the same time, modern technology has created new complications. The old scourge of terrorism, for example, has taken on a new significance because of instantaneous communications and the development of powerful plastic explosives. Missile technology has magnified the destructive power and geographical reach of small groups determined to achieve their purposes by whatever means necessary. The drug traffickers have benefited from transportation and communications lines that often rival those of government.

It is increasingly evident that we face serious challenges to the health of our environment, and President Bush has called for an international conference on global environmental issues. I believe the United States must lead this effort. We should foster a change of attitude, a recognition that economic development and a secure environment are both necessary. They go together. As Treasury Secretary, I pressed the multilateral development banks to foster conservationally sound, sustained development, and to initiate special programs to promote conservation in developing countries. As Secretary of State, I hope to build on this record.

No one has yet perfected the approaches to joint action we need to deal with this special range of global problems. But the stakes are too high for us to ignore them. We will begin with our allies, include our friends, and challenge our adversaries to make common cause in treating these issues. Indeed, we have already obtained Soviet agreement to add transnational issues as a fifth part of the U.S.-Soviet agenda. For implementing policies and programs we will continue to rely heavily, although by no means exclusively, on the United Nations and its specialized agencies, which are contributing importantly to resolving many of the world's shared problems.

EAST-WEST RELATIONS

Thanks to our policy of pursuing peace through strength, our dealings with the Soviet Union are less tense. We have made progress in arms control—especially the INF Treaty—human rights, bilateral ties, including a dramatic expansion in academic and cultural exchanges, and regional conflicts. We are pleased that Soviet troops have left Afghanistan on schedule. And we have reason to be optimistic that in the not too distant future Cuban troops will be withdrawn from Angola in conjunction with South Africa's departure from Namibia. We also look forward to the day when Vietnamese troops leave Cambodia.

There are good reasons for both optimism and pessimism about the Soviet Union. No one can doubt that ferment is underway and that there have been important changes in the past few years. The SS-20's are being destroyed. Soviet troops have left Afghanistan. Some political prisoners have been released. And a new, more constructive Soviet approach to regional conflicts in Southern Africa and Southeast Asia holds out the promise that problems in those troubled areas may be on their way to resolution.

These are reasons to be hopeful. But realism requires us to be prudent. The jury is still out on whether the process of reform will succeed. The Soviet Union remains a heavily armed superpower. While its rhetoric is different, the force structure and policies that support far-reaching interests and clients have not yet changed commensurately. Perhaps they will, but that hasn't happened, not yet.

In light of the ferment in the Soviet Union, a realistic policy for America and its allies should be guided by these principles:

First, we should continue to welcome and encourage reform in the Soviet Union that promises more freedom. But we should never measure the progress of Mr. Gorbachev's reforms by how many credits, concessions or accommodations we might make ostensibly to help him succeed with his domestic plans. Perestroika depends not on help from outside, but on changes in the Soviet Union itself. That's a lesson Gorbachev learned from Brezhnev's failures. We should learn it as well.

Second, while recognizing that Moscow's policies are informed by a new sense of realism, we should also understand that policies have contributed to that sense of realism. Our support for the Mujaheddin helped bring about the Soviet withdrawal from Afghanistan. NATO's willingness to deploy the Pershing and cruise missiles helped bring about the INF Treaty.

Third, we must continue to probe—even challenge—Moscow along every aspect of our agenda—arms control, human rights, regional conflicts, bilateral relations and transnational or global issues. We are interested in cooperating and negotiating to make progress wherever it can be made. We are also interested in seeing the "new thinking" applied in practice, not just in slogans.

Fourth, we need additional focus on regional problems, whether in Central America, South Asia, the Horn of Africa, South Africa, the Persian Gulf or the Arab-Israeli conflict. Soviet responsiveness in these areas may be one of the best indications of real change in Soviet behavior.

As you know, I met with Foreign Minister Shevardnadze in Vienna last week. The Foreign Minister called it "a good beginning," and I would agree with that assessment. The atmosphere was positive and, we had a broad, substantive discussion, including an hour one-on-one and an hour plenary. We decided to meet again in Moscow in early May.

Let me give a brief review of our discussion.

I told the Foreign Minister, just as I've told our allies, that we believe perestroika is good for the Soviet Union and good for the world. It was clear to us, however, that the success of perestroika really depends on actions within the Soviet Union.

Mr. Shevardnadze agreed with my suggestion that we should expand the agenda of U.S.-Soviet relations to deal with missile and chemical proliferation and also transnational issues, such as the environment, drugs, terrorism and health. We also reviewed the existing agenda. After presenting him with a list of refuseniks, I made clear that our commitment to attend the Moscow human rights conference in 1991 depended on continued progress. We want human rights gains to be institutionalized so they cannot be easily reversed.

The Foreign Minister understood why we had delayed the START negotiations in order to complete our strategic policy review. I assured him that we were determined to reach agreement, building on past progress, but we had to be sure of our basic strategic needs before we could do it. That's what the review is about.

Now, as you know, I went to Vienna to address the Foreign Ministers before their negotiations on conventional forces and confidence building measures. My speech emphasized the need for practical proposals that really change the force structures so that a successful invasion would become impossible. I also challenged the USSR to join with us in removing chemical weapons from Europe and destroying them.

I repeated these points to the Foreign Minister, and it was encouraging to note that on conventional forces, the Soviets may be moving in our direction. Especially important is that the Soviet approach embodies deep reductions in tanks, artillery and armored personnel carriers. Hopefully, such reductions could lead to the elimination of their capability for surprise offensive operations. But the differences in the Soviet and NATO proposals are still considerable especially on the zone concept and their desire to include naval forces and aircraft in the negotiations. So, we've got plenty of work to do.

We had a lengthy review of regional issues including Afghanistan, the Middle East, Central America, Southwest Africa, and the Horn of Africa. My overall point here was that we'd like to see Soviet "new thinking" and new slogans filled in with content. In some areas we've seen little sign of content or changed behavior. We haven't seen it at all in Central America. Mr. Shevardnadze's trip and discussions in Iran also were not encouraging in this regard, and I told him so.

Finally on the Middle East, I emphasized the need for positive, constructive action on the ground before we started with an international conference. We want a process that leads somewhere, not just a process that gives the Soviet Union—or anybody else—a role. The Soviets could be helpful if they reestablished relations with Israel and supported a dialog between Israel and Palestinians. Above all, they could restrain radical states opposed to peace, such as Libya.

We agreed that our respective regional experts should get together soon. And on the issue of a summit, we're not ready yet to set a date but will probably discuss it in the next ministerial.

To conclude this review, I am more convinced than ever that Western strength and Soviet domestic weakness have set the stage for the remarkable realism that has distinguished Mr. Gorbachev's tenure so far. As I discussed with our allies, we need to challenge the Soviets with new, well-considered initiatives in all aspects of our expanding agenda. Our task is to arrange affairs so that whatever the outcome of perestroika, a more responsible, constructive Soviet foreign policy will remain in Moscow's interest. Much of the world's hope for a more peaceful international order rests on the outcome.

RESOLVING REGIONAL CONFLICTS

I want to turn now to those regional conflicts that have denied peace and freedom to the peoples of Africa, South and Southeast Asia, and the Middle East. We have made encouraging progress in the recent agreement, mediated by the United States, that provides for Namibian independence and a withdrawal of Cuban and South African troops from Angola. And, we will be watching carefully to be sure that Cuba and South Africa carry out their obligations. But more is needed. Angola desperately requires national reconciliation. Until that occurs we shall continue to support UNITA and its leader Jonas Savimbi.

To this end we should be prepared to pay our fair share of UN peacekeeping efforts. The Bush Administration, following the initiative of our predecessor, has proposed a one-time transfer of DOD and foreign aid funds to meet our peacekeeping requirements in the current year. I anticipate that the Administration's request will be forwarded to Congress shortly.

We must also think long and hard about how we can help best to end apartheid in South Africa. And, we must never forget the very real human and developmental needs of people throughout Sub-Saharan Africa.

In South Asia, we welcome the withdrawal of Soviet troops from Afghanistan and look forward to that country's achievement an independent and non-aligned government fully acceptable the Afghan people.

The international community looks forward to the withdrawal Vietnamese forces from Cambodia. There, too, a difficult national reconciliation must be undertaken. The United States will continue to work for an independent Cambodia, free of Vietnamese occupation and Khmer Rouge domination.

In the Middle East, the Arab-Israeli conflict has long engaged America's attention, resources, and good will. Our mediation bore partial fruit in the Egyptian-Israeli peace treaty. But the task of fashioning a comprehensive settlement remains. Israel and its Arab neighbors must be at the center of the negotiating process. As always, we stand ready to help.

The purpose of negotiations is a just, enduring peace that ensures Israeli security and satisfies the legitimate rights of the Palestinians. Toward that end, we advocate direct negotiations based on U.N. Resolutions 242 and 338. Realistically, Jordan must play a part in any agreement. And the Palestinians must participate in determining their own future. We continue to believe, however, that an independent Palestinian state will not be a source of stability or contribute to a just and enduring peace.

A Middle East policy focused exclusively on the Arab-Israeli conflict, however, would be too limited. Libya continues to be a destabilizing factor in North Africa and elsewhere in the region. The situation in Lebanon remains a rebuke to everyone's hopes for a restoration of stability and independence for that tragic country. And a lasting peace remains to be established between Iran and Iraq.

We will continue working with other nations on these issues. We will also work with the United Nations on some of these regional conflicts. The U.N. should be seen for what it is, an expression of the world's desire for peace, and also too often the scene of those passions that prevent peace. Experience indicates that when nations agree on procedures and substance, the U.N. offers a valuable forum for making progress.

CHEMICAL WARFARE AND OTHER WEAPONS PROLIFERATION

Proliferation of new and dangerous weapons, often to states with a history of terrorism and aggression, is of growing concern to the international community. And for good reason. Perhaps most frightening is the combination of the ballistic missile and chemical weapons. Although "justly condemned by the general opinion of the civilized world," to quote the Geneva Protocol of 1925, chemical weapons have been used.

We must take special measures to prevent the use and accumulation of weapons. And we are determined to build on the recently concluded Paris Conference and to make progress soon. In Vienna, I announced that Australia agreed with us that it would take the initiative in organizing a joint government industry conference to discuss the growing problem of the movement of chemical weapons precursors and technology in international commerce.

OVERVIEW OF OUR FUNDING REQUEST

Clearly, we face a formidable agenda as we attempt to deal with the contraries of our age. Yet we start with a strong America. And we can be stronger still if we work together to overcome the challenges before us.

That requires our collective wisdom and skill but it also requires resources and the flexibility to use them where there most needed. I'd like to give you the highlights of our funding request for fiscal year 1990. I would only caution that pending the completion of the NSC review of foreign policy and national security challenges, individual account adjustments may recommended; however, in aggregate, the budget levels will remain the same.

For budget function 150—international affairs—we are asking $19.3 billion in discretionary spending authority, with the level for the Export-Import Bank to be determined in negotiations with the Congress. This $19.3 billion is an increase of $1.7 billion or 10 percent over what Congress Appropriated in fiscal year 1989, but in real terms, it's less than what we received in fiscal year 1985, 1986, and 1987. International affairs spending takes less than 2 percent of the total Federal budget. So in submitting our request, if I may understate the case, we do not feel we are imposing an unreasonable burden on the resources of the American people. Quite the contrary. We are asking for an investment to secure our vital national interests and a peaceful future.

The foreign operations component of our budget request includes most forms of foreign assistance (excluding PL 480 food aid), and is the largest single component of our request as a whole. The funds we make available under this heading help our friends and allies. But first and foremost, they serve America's own interests abroad.

We seek a total of $14.6 billion for foreign operations. The discretionary element, that is to say, funding for everything except the Guarantee Reserve Fund and Foreign Service retirement, totals $13.9 billion, or 74 percent of our entire request for foreign affairs appropriations. This represents an increase of less than 4 percent over the fiscal year 1989 level.

Let me now try to put this discussion in broader perspective by relating the resources we seek to the agenda I have outlined and to achievement of basic national interests and objectives.

NATIONAL SECURITY

Many of our friends in the developing world lack the resources to ensure their national security and to provide for the basic economic and social needs of their people. Because they must do both to survive and grow as free societies with values and institutions compatible with our own, we give them economic support and help finance the modernization of their armed forces. At the same time, we encourage developing countries to overinvest on the military side.

I would like to note, in particular, the importance we attach to the small, but vital, International Military Education and Training (IMET) program. IMET is not just an aid program, but also a channel of communication and influence with literally thousands of foreign military leaders, and a highly cost-effective force multiplier for key friends and allies.

For fiscal year 1990, our total request for Discretionary Security Assistance funding (MAP, FMS, ESF, IMET, antiterrorism assistance and peacekeeping operations) is $8.5 billion. That compares with $8.1 billion appropriated by the Congress for fiscal year 1988 and again for fiscal year 1989.

Despite this increase, what we are seeking for security assistance is less than the level appropriated in fiscal year 1987. The cuts from the levels provided in fiscal year 1985 and 1986 are even deeper.

For the first time, we are not seeking an allocation of MAP funds for specific country programs. Instead, we are combining the MAP and FMS programs and requesting that the total approximately $5 billion—be provided in the form of FMS grants. Use of FMS in lieu of MAP will enable countries capable of doing so to apply defense assistance to commercial purchases. The all-grant program initiative is part of our effort to strengthen new, fragile democracies and ease the financial burden of countries whose economic health is vital to our own.

Israel and Egypt will receive the largest share of our security assistance in fiscal year 1990 ($5.1 billion). This underscores the importance of the Middle East to the United States, and the central role which Israel and Egypt must play in bringing peace to that troubled region. Solid economic growth in these countries is essential to our effort. Thus, we are committed, for example, to working with Egypt to effect needed economic reforms.

In the West Bank and Gaza, our assistance is evidence four determination to help the people of the occupied territories achieve a better quality of life. Of the $17.5 million in ESF we seek for Middle East regional programs $12 million will be used for development programs in these areas. In addition, in 1990 the U.N. Relief and Works Agency is expected to provide $100 million in assistance to Palestinian refugees in the territories one-quarter of which is attributable to the U.S. contribution to that organization.

In addition to the funds for Israel, Egypt and the occupied territories, we are also requesting $206 million in security assistance for Tunisia, Jordan, Oman and Morocco, thereby furthering prospects for stability and growth in the region as a whole.

Security assistance is also used to strengthen the defense capabilities of friends and allies which provide us with access to military facilities in the interests of their own security and ours. In recent years, budgetary stringency and extensive earmarking have hampered our ability to provide necessary support to these countries. For Portugal, our assistance is well below the "best efforts" commitment we undertook when we signed the current base agreement. Assistance to Turkey is already hundreds of millions of dollars below the level necessary if that country is to meet its NATO commitments. And assistance to Greece has fallen one-third below the level provided following the signing of our 1983 base agreement.

For fiscal year 1990, we are requesting $1.1 billion in security assistance funding for these three countries, an increase of 7 percent over the level appropriated in fiscal year 1989. This is not adequate to make up for past shortfalls. But it will help.

The Philippines also provides us with access to military facilities important for our political and strategic interests the Pacific. Our assistance program for that country misdirected toward helping a struggling ally revitalize and strengthen its democratic institutions, beat back a Communist insurgency and promote economic growth. Last year, we successfully completed a review of our bases agreement with the Philippine Government. This sets the stage for an extension or renegotiation of the agreement, the fixed term of which ends in 1991. As an outgrowth of the review, we are requesting a substantial increase in both economic and military security assistance.

Separately, we are also requesting $200 million as a U.S. contribution to a proposed Multilateral Assistance Initiative (MAI). MAI is both a bold new program to provide vital support to democracy in the Philippines and a unique experiment in donor cooperation. It is designed to help the Philippine Government reorient its economy for sustainable growth led by the private sector—the key to assuring a democratic future for an important friend and ally. This program, which is based on a Congressional Initiative, has strong bipartisan support. Both Speaker Wright and Senate Minority Leader Dole appeared before the HFAC Asia Subcommittee March 7 to endorse our fiscal year 1990 request. The $200 million that we seek is an investment in democracy and market-oriented economic growth.

Also in East Asia, we seek to maintain the self-defense capabilities of Thailand, a very cooperative treaty partner which faces the consequences along its border of the Vietnamese occupation of Cambodia, and to support Indonesia's laudable market-oriented restructuring program.

And for Central America, we are requesting approximately $900 million for fiscal year 1990 to promote economic growth, security and democratization, clear goals which Republicans and Democrats alike can support.

PROMOTING PROSPERITY AND DEVELOPMENT

With the evolution of the world's trade and financial systems into a single, integrated global marketplace, American growth and prosperity are, more than ever, influenced by economic conditions abroad. When we assist other countries to develop their own economies, we also develop markets in the global economy for U.S. goods and services.

The current economic stagnation in a large number of developing countries, especially those with heavy debt burdens, illustrates the point vividly and painfully. For example, between 1981 and 1987 economic growth in 17 heavily indebted middle-income developing countries averaged only 1 percent a year. In the same period, our exports to those nations dropped by over $9 billion, or 24 percent. Economic stagnation in these countries as well as those in sub-Saharan Africa and the Middle East led to a $13 billion decline in U.S. exports to developing countries as a group. Since these countries absorbed respectively 41 and 33 percent of total U.S. exports in 1981 and 1987, it is easy to see both how their economic difficulties contributed to our trade deficit, and how a resumption of growth in the Third World could help us solve a problem which is of serious concern to us all.

Of course, foreign assistance is far from the whole answer the riddle of how to restart the growth process. We also need to continue our efforts to liberalize trade worldwide and to further examine the role which debt policy can play. Most importantly, we need to continue encouraging the developing countries to adopt market-oriented policy reforms. For only when their markets provide the proper signals will they be able to attract the savings of their own citizens and overseas investors necessary for growth.

For fiscal year 1990, we are requesting $6.1 billion in discretionary appropriations for economic assistance programs, or $9.4 billion when our $3.35 billion request for the Economic Support Fund (ESF), is included. ESF's a program that supports economic stability and development as well as serving our security objectives. Our ESF request represents an increase of only $73 million, or 2 percent, over the level appropriated in fiscal year 1989. That is not enough to keep up with inflation. This Budget has been carefully scrubbed. We can't do with any less.

In addition to ESF, economic assistance takes many forms:

Development Assistance ($2.4 billion, including $565 million for the Development Fund for Africa) mainly to fund projects administered by the Agency for International Development (AID) in such areas as agriculture, education and human resources development, health, nutrition and private sector development.

Funding for the Multilateral Development Banks ($1.6 billion). Of this amount, $965 million will be used for the International Development Association (IDA), the "soft" loan window of the World Bank which finances development activities in the poorest developing countries. An additional $557 million is for the regional development banks which service Latin America, Africa and Asia—including their "soft" loan affiliates. And the remainder, $115 million, is for the International Finance Corporation. Our request funds both current U.S. commitments to these institutions of $1.3 billion and clearance of $314 million in arrears.

Funding for Peace Corps programs ($164 million).

Voluntary contributions to such international organizations as the U.N. Development Program ($108 million), UNICEF ($34 million), and the new Afghanistan Emergency Trust Fund ($16 million).

PROMOTING DEMOCRATIC AND HUMANITARIAN VALUES

American security does not depend exclusively on our military and economic might and our "resolve to use them effectively, as important as these factors may be. We rely also on the presence of a community of nations whose behavior toward each other is marked by civility, and whose institutions and values are compatible with our own. The process of strengthening such institutions and values is a slow and difficult one. Fragile new democracies face daunting challenges. They need, and deserve, from us more than mere words of encouragement.

In Central America and the Caribbean, democratic institutions are taking root in countries where just a few years ago many despaired of that ever happening. These new democracies desperately need our help. President Reagan's Caribbean Basin Initiative and the National Bipartisan Commission on Central America provide comprehensive strategies for advancing the important process of democratic institution building. The implementation of these strategies has met with strong bipartisan support and has involved a constructive joint effort by Congress and the Reagan Administration. This Administration believes it essential to continue this effort. For fiscal year 1990, we are requesting $735 million in economic assistance for Central America and $206 million for the Caribbean.

The United States is never more true to its most cherished values than when we defend human rights and provide humanitarian assistance abroad. In our turbulent and often cruel world, the defense of human rights means more than just speaking up, although that too is important. We must also provide funds to help refugees fleeing oppression and populations devastated by want and disaster.

Over the past few years, the assistance we have provided has meant the difference between life and death for literally millions of Africans who faced the worst drought and famine the continent has experienced in this century. During the crisis, the United States provided 2.2 million metric tons of food aid at a cost of over $1 billion; another $150 million was spent to provide medicines, shelter, wells, and the other immediate needs for those worst affected. This was all in addition to the regular economic assistance we provided.

Last year, U.S. aid to victims of drought and civil strife was focused on Ethiopia, the Sudan and Mozambique, providing urgent relief to millions. In all, we provided emergency assistance in some 60 disasters last year. We helped Bangladesh respond to the needs of over 25 million people affected by the worst flooding ever recorded in that country; we contributed to major earthquake relief efforts in Nepal and, most recently, in the Soviet Union; and we helped to combat locust infestations in 17 African countries.

Our assistance is sometimes channeled to multinational agencies. Most notably, our support for the World Health Organization has helped rid the world of some of the most deadly and contagious diseases.

We can be proud of America's record of assistance to the world refugee population. The United States leads the world both in providing financial assistance to refugees overseas and in resettling refugees in our own country.

For fiscal year 1990, we are requesting $370 million for Migration And Refugee Assistance and $10 million for the Refugee Emergency Fund. Of the $370 million, we plan to allocate $175 million for relief assistance for refugees in first asylum camps around the world through such agencies as the U.N. High Commission for Refugees, the International Committee of the Red Cross and the U.N. Relief and Works Agency for Palestinian refugees, as well as a wide range of private voluntary organizations.

The budget requests an additional $157 million for refugee admissions to the United States for an estimated 84,000 extra refugees; and $38 million for other statutory programs and for administration.

However, in administering our refugee admissions program, we have recently encountered pressures never anticipated by the drafters of the Refugee Reform Act a decade ago. In particular, over the past year we have been attempting to deal with the totally unanticipated exodus of tens of thousands of people from the Soviet Union, Eastern Europe, Cuba, Nicaragua and Southeast Asia. In response to liberalized emigration and a relaxation of prohibitions against departure from communist countries, the Department has initiated a reassessment of our refugee admissions policy. We intend to work closely with Congress to achieve a new consensus, one which will be both humane and responsible. This new consensus will most probably lead to changes in funding for admissions as well, which we will propose as soon as they are determined.

COMBATING INTERNATIONAL NARCOTICS TRAFFICKING AND TERRORISM

International narcotics trafficking and terrorism are the twin scourges of our modern age. They pose a particular threat to open, democratic societies. This Administration, like its predecessor, Congress and, above all, the American people agree that we must combat them with all responsible means at our disposal.

As we have seen in Colombia and in Panama, international narcotics trafficking poses a threat not only to the health and welfare of our citizens, but to the security of free people throughout the world. And the threat continues to grow.

For fiscal year 1990, we are requesting $115 million for international narcotics control, a 14-percent increase over the amount appropriated for fiscal year 1989. This includes $75 million in direct assistance to Colombia, Bolivia, Peru, Ecuador, Mexico, Venezuela and other countries in Latin America and Asia. It also includes $28 million to support aerial and manual eradication of coca plants, seize and destroy illicit narcotics, immobilize drug traffickers, provide logistic support to field organizations and conduct surveys to identify production and verify program results.

These programs constitute only a part of our total effort to control international trafficking in narcotics. Economic and military assistance is also important in this effort as well as our participation in UN narcotics control activities. For fiscal year 1990, we are requesting almost $200 million to assist the four Andean democracies—Colombia, Ecuador, Bolivia and Peru—whose social fabric and democratic institutions are threatened by the growing power of narcotics traffickers. Assistance to these and other countries supports public awareness programs, projects which develop viable economic alternatives for farmers who depend on cultivation of narcotics crops for their livelihoods, and increases in the capability of military forces to contribute to eradication and interdiction efforts. We intend to work closely with the new "drug czar", Bill Bennett, in this area.

International terrorism, like international narcotics trafficking, offends the most cherished values of democratic societies. To combat it, we must be vigilant; we must be prepared to commit the needed resources; and we must continue our vigorous diplomatic, intelligence, and law enforcement efforts.

Through long and often bitter experience, we are developing more effective policies and programs to deal with this scourge. We are exchanging intelligence and strengthening cooperation with other countries in law enforcement. We have gone on the offensive to bring terrorists to justice, to disrupt their operations, and to destroy their networks. We continue to bring pressure to bear on states which support terrorism and to encourage our allies to do likewise.

Through U.S. leadership in the International Maritime Organization and the International Civil Aviation Organization, we have achieved international agreement on means to combat terrorism on the seas and in the skies. We are also working to persuade countries reluctant to cooperate in combatting international terrorism to rethink their positions.

We have strengthened security measures to protect our citizens at home and abroad. And we are providing training and training-related equipment to countries with the will but not the means to cooperate in the fight against terrorism.

U.S. programs to enhance the counterterrorism skills of other nations include training and provision of equipment and logistical support. For fiscal year 1990, we are requesting $10 million to continue the Department of State's Antiterrorism Assistance Program. With the requested funds we will be able to train about 1,500 security officers from around the world in a variety of antiterrorism skills.

CONCLUSION: THE NEED FOR CHANGE

Mr. Chairman, as I noted earlier, we look forward to working with this and other committees to produce a more flexible and efficient foreign assistance system. We must reverse the trend toward more reporting requirements, earmarks and restrictions. Earmarks are especially harmful. The combination of earmarks and cuts made in our request, have forced us to significantly underfund security assistance programs for some important friends and allies. If we are to maintain reliable friends around the world, Mr. Chairman, we must be a reliable friend ourselves. In the last several years, our reliability has been questioned. This is not good for our friends and allies, and it is not good for America.

If the needed flexibility can be achieved, then the levels our fiscal year 1990 budget request will enable us to fund on a modest scale programs we have had to curtail sharply in recent years. In my view, this is essential. No foreign policy, however intelligent, can be meaningful without the resources to do the job. That is what we are asking for here today.

Thank you.

EARMARKS

Senator LEAHY. Thank you, Secretary Baker.

I might note that the last issue—the question of earmarks—has arisen out of some occasional mutual distrust between the administration and Congress. Of the worldwide diplomacy you will undertake, probably the greatest test of your diplomatic skills will be in dealing with that issue.

I will pledge to you to begin with an open mind. Even though, in many instances, I have supported earmarks as the only way that we could get an important policy through.

I would like to defer for a couple of minutes to Senator DeConcini. I have already spoken to Senator Kasten about this because Senator DeConcini has to leave to chair another hearing, and he wanted to participate.

Senator DECONCINI. Mr. Chairman, thank you, and Senator Kasten.

Mr. Secretary, I have to go chair the Treasury, Postal Committee that you used to come before. We miss you down there although I am sure Mr. Brady will do well.

I am going to submit all of my questions, Mr. Chairman, on Angola and proliferation of weapons and other subjects.

I want to just ask the Secretary to please, if he can, set aside a little time where he might visit with Senator Kasten and myself regarding Angola. We have put together a caucus or a group here, a task force, and want very much to work with the administration to ensure the continued support of UNITA and true political dialog in Angola. However, I don't want to go into this at great length.

COMMISSION ON COOPERATION AND SECURITY IN EUROPE

Last, Mr. Chairman, Mr. Secretary, taking on the chairmanship with the former chairman, Steny Hoyer, of the Commission on Cooperation and Security in Europe, known as the Helsinki Commission, I hope you will personally involve yourself, as your predecessor did, in the spirit of this not being a confrontational relationship between the legislative branch and the executive branch.

We were successful in the last Congress to have Ambassador Shifter actually as a working member of the commission. We had an Under Secretary of Defense, Mr. Lehman, and Mr. Loss of Commerce who were working members who traveled and participated with us, and voted with us or against us, as the case may have been, on issues. I think it serves both the executive branch and the legislative branch for this to continue, not that we will not have disagreements. We will.

And I was disappointed this last weekend when Congressman Hoyer was in Vienna and was prohibited from even sitting in as an observer, not as a participant of some of the talks that were going on over there on conventional weapons because he was told by our negotiator there that he literally could not go in to even observe as the chairman of the Commission on Security and Cooperation. So, I hope the Secretary would look at this because I think it is not going to bode well for what I think was a constructive 100th Congress with a relationship on human rights between the commission and the State Department.

Secretary **Baker**. Senator DeConcini, I certainly will take a look at it. Of course, there is a difference between the CFE negotiations, which will hopefully produce a treaty that we will be bringing up here asking you to ratify, and the CSCE negotiations. But let me take a look at that particularly in light of your comment about observer status versus the status that you occupied as a commission member and so forth.

Senator **DeConcini**. Maybe we needed to lay it out a little bit so you had more time to look at it because we were not asking that we be a participant at all, just merely an observer, and we were literally barred from attending, I am told by co-chairman Hoyer.

Secretary **Baker**. I thought the issue had been one of whether or not we were going to continue the CSCE commission and apply it in exactly the same way and form to the CFE discussions. And there is a difference there.

Senator **DeConcini**. Yes; there is.

Secretary **Baker**. But if we are just talking about observer status, I'd be delighted to look at it.

Senator **DeConcini**. Thank you.

Mr. Chairman, I want to thank you very much and Senator Kasten for letting me bring these matters up.

CENTRAL AMERICA

Senator **Leahy**. Thank you very much, Dennis.

Secretary Baker, as you know, my good friend Bob Kasten and I have written to you about Central America. We are impressed with your offers to work for a bipartisan policy in Central America. We are anxious to sit down with you to see how much common ground there is among us. I have also discussed this in meetings with President Bush, where I told him that there really is a desire to work out a bipartisan Central American policy.

I am especially concerned about El Salvador. Interestingly enough, public concern goes back and forth depending upon whether the press covers something or rediscovers something that has been going on for 6 months or 1 year. Whether the issue is death squads or poverty or shortages or whatever, public concern varies depending on media attention. In fact, I intend to go to El Salvador some time after their elections.

I agree fully with the recent GAO review. It suggests United States policy over the last several years has made the underlying situation in El Salvador worse.

I think the new administration has a chance to chart a different course, one which puts the weight of our policy on a political and diplomatic track. I think up to now we have primarily tried to implement a military track, and it has failed. In fact, in some instances we were substituting a covert action policy for a foreign policy. That may produce short-term gains, but I have never seen an instance when a covert action policy has really been better than an overall foreign policy.

It is especially important for us to see if there is a new approach. Otherwise, there is going to be great difficulty for the administration's $386 million aid request for El Salvador. I don't relish a new fight over aid to El Salvador. But I can't support more aid with no strings attached without significant changes in our whole approach to that country.

Perhaps you could give us some of your ideas regarding what sort of policy review you see for Central America, especially El Salvador. Are we going to continue on the same track, or will we see some policy changes?

Secretary **Baker**. Mr. Chairman, I am not sure I would be quite as pessimistic as you are based on that GAO report. I guess maybe I would disagree with it to a greater extent than you do, if you disagree with it at all.

I think in El Salvador over the course of the past of 6, 7, 8 years, we have seen five separate reasonably free and fair elections. We still have a difficult situation down there. I think that our policy approach is already, if I might suggest, somewhat different.

I certainly agree on the need for a bipartisan approach, not just for Nicaragua where we have less of a bipartisan approach I think even than we have for El Salvador, but for Central America as a whole.

We had hoped that the FMLN election proposal that was surfaced down there 5 or 6 weeks ago—really just within days after I had been confirmed by the Senate—might have offered an opportunity to move us toward an end to violence in El Salvador. As you may or may not know, one of the first things we did, was to quietly encourage the Government of El Salvador to explore the prospects of any opening from that proposal, and we suggested that it was worthy, I think we said, of serious and substantive consideration. It wasn't, in other words, simply rejected categorically and out of hand.

I would submit to you that in the interim it has received substantive and serious consideration. I think that President Duarte and other political parties, as well as the armed forces, have been exploring the seriousness of FMLN intentions. There have been proposals and counterproposals going back and forth over the past 5 or 6 weeks. The government, as you know, decreed a unilateral cease-fire until June 1, and by doing that, I think have put the focus on the key issue of the FMLN's willingness or not to end the violence. So far, they have chosen not to end the violence, and they are doing whatever they can to disrupt the election which is scheduled for Sunday.

So, I would submit to you that there already has been, to some extent, a little bit different approach, one that I would think would receive bipartisan support up here on the Hill.

HUMAN RIGHTS IN EL SALVADOR

In addition, of course, the Vice President took a trip through the region, laid down a strong marker, as Vice President Bush did in 1983, with the El Salvador Government with respect to human rights. So, it seems to me that there have been some steps taken and some movement in that situation down there which should occasion bipartisan support for the approach.

Senator **LEAHY**. I think the Vice President is to be commended for the statement he made while in Central America. I was aware of the encouragement that the administration gave on the question of elections there, and I agree with that.

But the concern that I have—the concern I certainly hear from my own constituents in Vermont and mail that I get from all over the country—is whether democracy has really taken root in light of the fact that there have been five elections in El Salvador.

We see the virtually unchecked activity of the death squads. The ARENA party will in likelihood win if the polls are to be believed, and yet they have strong ties to the death squads. It wasn't until this past week that anybody has ever really been arrested for death squad activity.

This is so commonplace. I remember my first trip to El Salvador. While driving along the road, in two different areas, I saw people who had just been shot. One within the hour. And people were just going about their ordinary business. A couple of other people were digging the hole to roll the body into. It has become that commonplace.

So, I think we have to ask ourselves just how successful our policy there is when the death squads still go unchecked.

Secretary **BAKER**. Can I respond to that?

Senator **LEAHY**. Certainly, of course.

Secretary **BAKER**. First of all, let me say that I think the evidence is fairly clear that there are only about one-half as many armed guerrilla combatants today, roughly 6,000 to 7,000, than there were as recently as 1984. There were about 12,000 in 1984.

In 1981 and 1982—and I am not saying this in any way in defense of death squad activities or political violence—the rate of political murders down there was running at about 800 per month. It is now, as I understand it, about 280 per year.

Yes; the situation has deteriorated a bit in recent months, as is always the case as they move up toward the election date. We are doing what we can to lay markers down on that.

I would hope, Mr. Chairman, that it would be the policy of the United States to respect the results of an election even if our favored candidate——

Senator LEAHY. No, no; please don't misunderstand me on that. I have no problem with accepting the results of an election.

What I am saying, however, is that if we continue providing foreign aid to El Salvador, and if the party that has been closely identified with the death squads is the winner, then I think we also have an obligation to have some very strict ties on that aid.

Now, I realize the number of killings has decreased. One cynic before this committee once suggested that if the killings went down, it was probably because most of the targets had been killed. That may not be that far off the mark considering some of the people within the labor movements, the opposition, and politicians who have been targeted. You can only kill the same person once.

However, I will put into the record a Los Angeles Times article of March 9 which suggests that the number of killings has increased.

[The information follows:]

[From the Los Angeles Times, Mar. 9, 1989]

SALVADOR KILLINGS RISE DESPITE U.S. PLEA

QUAYLE'S THREAT OF AMERICAN AID CUTOFF IGNORED, OFFICIALS SAY

(By Kenneth Freed, Times Staff Writer)

SAN SALVADOR.—Vice President Dan Quayle's trip here last month to demand that the government end human rights violations or face the loss of American aid has had almost no impact, with the number of killings actually increasing since his visit, according to diplomats and human rights groups.

In the month before the vice president's February trip, the number of civilian deaths attributed to death squads and the military was eight. However, since Feb. 3, when Quayle told the Salvadoran military that the United States "expects them to work toward the elimination of human rights violations," killings attributed to right-wing death squads and the military have matched the earlier monthly average of 20 a month, according to figures compiled by human rights organizations.

And, although pressure from Quayle for action in one case has resulted in movement in that instance, many diplomats are still skeptical that anyone will actually be punished.

That case involves the so-called San Sebastian massacre of Sept. 21, in which members of the army's 5th Brigade allegedly killed 10 civilians suspected of supporting the Marxist rebel organization, the Farabundo Marti National Liberation Front.

After the U.S. Embassy here became convinced that the army had covered up the direct responsibility of senior officers for the killings, Quayle was asked to put pressure on the military. He arrived with the names of three army officers, all members of the 5th Brigade, and said that action had to be taken against them.

The three are Col. Jose Emilio Chavez Caceres, the brigade's commander; Maj. Mauricio de Jesus Beltran, its intelligence chief, and the officer in charge of the San Sebastian operation, known only as Lt. Vasquez.

SALVADORANS OUTRAGED

Quayle adopted a tactic used in 1983 by then-Vice President George Bush. Bush came here with a list of nine people he said were responsible for many of the human rights violations by death squads and the military. Bush's trip is credited by many Salvadoran and foreign officials with moderating the human rights abuses of that period.

Quayle met privately with military leaders, told them of his concern and then handed a sealed envelope containing the three names to U.S. Ambassador William Walker, who passed it on to the minister of defense, Gen. Carlos Vides Casanova.

Sources close to the military high command said Vides Casanova and other officers were outraged at what they felt was unacceptable interference in their affairs. Yet they heeded the warning that a lack of action would endanger the $430 million a year that El Salvador receives from the United States.

As a result, Col. Chavez Caceres has been suspended as 5th Brigade commander and brought to the capital, though he is not under arrest. Maj. Beltran and Lt. Vasquez are being held at military installations in San Salvador, as is a fourth officer, a Lt. Galvez, who was a platoon commander during the San Sebastian operation.

Sources close to the military say the action in the San Sebastian case is little more than a sop to pacify the United States and that Quayle's message is being largely disregarded.

There has been no progress in several other prominent human rights cases on which the United States had demanded action.

According to Tutela Legal, the human rights office of the Catholic Church here, and several Western diplomats, the overall Salvadoran record is bleak. Even diplomats who are critical of Tutela Legal, and who try to minimize the human rights situation, acknowledge that Quayle's visit "doesn't appear to have had any effect."

Meanwhile, there has been a steady stream of disappearances of people assumed by Tutela Legal and diplomatic sources to be victims of death squads.

In the past month, court officials have ordered several exhumations at what were called "body dumps" in the early 1980's, when death squads were killing people and dumping them at these places at the rate of 800 a month.

Last Saturday, three bodies were dug up near the suburb of Soyapango, all men who had been taken from their homes, tortured and shot. The three were residents of Soyapango, an area often used as a body dump and controlled by the air force, which has a reputation of taking extreme measures against suspected guerrillas and their sympathizers.

Tutela Legal has also accused the army of killing a woman doctor and a 14-year-old girl acting as a nurse last month at a guerrilla field hospital in northern Chalatenango province. In addition to allegedly killing these two, allegedly after raping them, the army is also accused of killing three paramedics and five wounded guerrillas being cared for in the hospital.

Despite the action taken as a result of the San Sebastian incident, sources close to the proceedings doubt that the case will go much further. Col. Chavez Caseres, the former brigade commander, was a military academy classmate of the army chief of staff, Col. Rene Emilio Ponce, and several other influential officers.

U.S. officials acknowledge that no Salvadoran military officer has been convicted of a crime since 1979. A European diplomat said that "if there is any public attempt to punish [the officers in the San Sebastian incident], it will cause a military reaction."

Although Chavez Caseres has been suspended and other officers arrested, the army has not complied with court procedure by turning over evidence and delivering the officers for questioning.

Nor has the court been given a videotape, made by the army just minutes after the killings, that contradicts an almost uniform account of the incident given by enlisted men who were at the scene. These men testified that the civilians had been killed in a guerrilla ambush, but their account is challenged by sources close to the investigation.

In Washington, Quayle's spokesman, David Beckwith, said the United States wants those accused to be brought to "a fair trial * * * we want justice to be done."

The United States "can't dictate their procedures, but it has to be perceived as a fair investigation."

Adding to the doubts about a just conclusion to the San Sebastian case, or any other violation of human rights, is the fear that clings to any such investigation here. The judge who originally investigated the incident has been forced to resign and go into hiding.

"I am afraid," Judge Ediz Alcides Guardique Calvallo said in an interview. "If they threaten me or hurt my family, I will have to leave. Now there is great international pressure, and that is stopping them. But what will I do later? Later they can get me."

EL SALVADOR KILLINGS

Senator **Leahy**. But my point is not whether the specific number of killings has increased or decreased. My point is that if you have a party that has been identified with the death squads and that party wins control of the new government through a process that we support, we can't close our eyes to what they are doing. Not when this country is the third largest recipient of U.S. foreign aid on a per capita basis. A country that is smaller geographically than my own State of Vermont.

Secretary **Baker**. No, no; but I'm not suggesting—I hope you understand.

Senator **Leahy**. I understand.

Secretary **Baker**. In fact, I prefaced my comment about the number of murders by saying this is in no way to be seen as a defense of the fact that there are any.

But let me just say that I would hope that you would tread slowly before you go back to a certification process or support a certification process down there with respect to our aid. We would be pleased to consult with you on that.

We, as you know, are now reporting in quite some exquisite detail about what is happening in five specific areas, as I understand it, judicial reform, civilian control of the military, agrarian reform, dialog, and death squad activity. So, the Congress has up-to-date information that it can sift and utilize in determining the extent and scope of aid.

Senator **Leahy**. And I will sit down and talk with you regarding our aid to El Salvador before I visit there.

But let me just go to one other area and then yield to Senator Kasten.

AID TO THE CONTRAS

In your statement, you say we are not going to abandon the Contras. And according to the paper this morning, the administration is working on a new plan to provide more humanitarian aid to the Contras.

I am very serious when I say I want to work with you to forge a better policy in Central America. I have no question of your own sincerity and the President's sincerity in wanting to do that too.

But just speaking as one Senator, the only kind of aid to the Contras that I could imagine myself supporting would be to bring them to a decent end by helping them to either return to Nicaragua or resettle elsewhere, if that is what they want.

We can either follow a diplomatic solution based on the peace process or maintain the Contras for another year which, in my mind, doesn't really provide us plausible leverage, diplomatic or otherwise.

In the Congress, we are not going to resume a Contra war. The American public is not going to support it. The Congress is not going to. And I think if we can get that idea behind us, we can probably build the kind of bipartisan consensus necessary for a successful Central American policy.

So, what are we going to do about them? Are we going to have a supplemental for more aid?

Secretary **Baker**. First of all, let me say that nothing we have suggested is inconsistent, Mr. Chairman, in any way with what has been advanced by the Central American democracies themselves. And, in fact, I think three of the Central American democracies have already indicated an interest in and willingness to support the concept of pure humanitarian aid for a period of maybe 10 or 11 months, whatever the timeframe is that gets us through the elections that are scheduled for February in Nicaragua so that we can measure the good faith intentions of the Sandinista government.

They have made a lot of promises to us and to governments in Central and Latin America on a number of occasions now and they haven't kept those promises. And I really think that we and others are justified in looking for performance.

We have made the point in consultations up here that we think it is a mistake for aid to the resistance to be the centerpiece and foundation of the United States of America's policy in Central America. And we have a much broader gauged approach in mind which we have briefed to the Republican and Democratic leadership of both the House and the Senate. I hope and believe that it is being reasonably well-received.

It would contemplate maintaining the resistance for a period of 10 or 11 months through humanitarian assistance only. It would not be inconsistent with some sort of border verification process. And it doesn't call for escrowing military assistance or anything like that.

Senator **Leahy**. But didn't the Central American presidents talk in their February 14 meeting about disbanding the Contras in 90 days?

Secretary **Baker**. No, sir; no, sir. They talked about coming up with a plan——

Senator **Leahy**. Within 90 days.

Secretary **Baker** [continuing]. In 90 days, which is totally consistent with our approach. And I think our approach will be supported by them, by the Central American democracies. It may not be supported by Nicaragua, but I think we have a reasonable chance to expect that the countries that are democratic down there might support this.

So, it is not correct to suggest that they came up with a proposal that calls for repatriation starting 90 days from February 14. That is not what they decided at all. They concluded that they would come up with a plan that looked toward repatriation and resettlement.

Senator **Leahy**. Do you think they would come up with a plan that would talk about anything other than repatriation?

Secretary **Baker**. Yes; I think it would be quite consistent with what they discussed and decided at Tsoro. It could be that one element of that would be repatriation if the other side of the bargain was kept, and the other side of the bargain, of course, are the promises that the Sandinista government made in Esquipulas, in Sapoa, on a number occasions, to the OAS, on basic steps toward democratization, just basic steps.

So, I don't think it is inconsistent at all, Mr. Chairman.

Senator **Leahy**. Thank you.

Senator Kasten?

BUDGET NEGOTIATIONS AND EXPORT-IMPORT BANK DIRECT LENDING

Senator **Kasten**. Mr. Chairman, thank you.

Mr. Secretary, a moment ago you spoke about earmarks and I just want to reiterate something that the chairman said in his opening statement.

We are about to begin the overall process of work on this budget. I think we will be successful in arriving at a budget within the Gramm-Rudman targets, without tax rate changes and without tax increases. The process is now beginning in terms of working with the broad groupings, and I think we are seeing progress in the Budget Committee. I know we are seeing progress downtown. And if we get out of the exact accounts, 150, 050, whatever, and start to look at it conceptually, I think we are going to reach agreement.

Now is the time when you will have to engage in the process of covering the $695 million that we will appropriate, or something very close to it, for the direct loan window of the Export-Import Bank. If we are not able to get that into the mix right now, that $695 million is going to have to come from somewhere else. I think we have to be realistic.

So, as we begin the budget process, I hope that we can cover the Export-Import Bank and that you and your colleagues can involve yourselves in the process because this is where we will either win or lose.

With regard to earmarking—the reason we do it is because the pot is getting smaller. And so, people are saying in order to protect themselves, I have to get involved in the process, maybe hire a lobbyist downtown, and work the committee in order to get the earmarkings. As we earmark more and more, the problem gets worse and worse for those who aren't earmarked, and the pressure is on them to make sure they get themselves earmarked next time.

So, the problem is that the pie is shrinking, and what you have to do is to stop the erosion and be sure that we don't end up by double-counting the Export-Import Bank. Or by not counting the Export-Import Bank, that similarly increases your problem.

I hope that we can labor together on that. I am anxious to work as a member of the Budget Committee, as well as a member of this committee, with you in on strategy. But in the last couple of years we have lost the Budget Committee battles in certain cases, and the result of those losses is that the Budget Committee carried the 302(b) allocations all the way into the appropriations process. And then we are faced with an unfortunate circumstance in which we try to increase foreign aid, if you will, over and above the level that has been agreed to by the Budget Committee. And that, given the constituency we don't have for foreign aid, doesn't work.

Secretary **Baker**. Senator Kasten, I really appreciate your making those comments because I totally agree with everything you have said. I have been involved in my share, as you know, of budget summits and budget negotiations. It is the point I was making yesterday in my response over on the House side to the idea that we should start off with a mark that assumes sequestration. I share your view that we can do better than that provided we are willing to stand up and fight and involve ourselves in the process.

In 1987 we did because we got involved in that budget summit. And when I say we did, I had some role to play in that as Secretary of the Treasury, but we had a mark for the 150 function in the aggregate that gave us some assurance that the very important national security in foreign policy priorities of the United States would be funded to a reasonable degree.

So, I really appreciate your saying that because it represents my sentiments entirely.

Senator **KASTEN**. I think we can be optimistic. Even during the last 24 hours I think we have seen the big picture start to come together and now we just have to work together.

I want to, if I can, touch on a number of different subjects. First of all, I would like to discuss the Middle East.

DISCUSSIONS WITH THE PLO

As you are aware, Senator Inouye and I wrote Secretary Shultz a letter toward the middle of December in which we asked him to outline the situation with regard to our dialog with the PLO, to try to get a sense of what the parameters of that discussion might be.

As you know, we began talking to the PLO because they finally made some statements we had been asking them to make for 13 or so years.

Secretary **BAKER**. Thirteen years.

Senator **KASTEN**. They made the statements, so we began a dialog.

My question is, Do those statements have any meaning? Can they be saying one thing in public statements and doing another thing in action? And I would like, if I could, to get your ideas in terms of the parameters. Under what circumstances would we say we've had it, no more, we're not talking anymore with you? What kind of guidelines do we have?

There is a list of statements that Arafat has made that, in effect, contradict some of the statements he made at our request during the press conference in December. Although he said he was renouncing terrorist acts, he has still not accepted the Security Council Resolutions 242 and 338.

Has he accepted unequivocally Israel's right to exist? We have seen statements on both sides of some of those issues.

Are we listening to every thing that they say, and when they say something that is off the reservation, we say stop?

Secretary **BAKER**. Well, your question was under what circumstances would we consider we would have to take a second look at the process we are now involved in, that is, the dialog. And I think we would have to take a second look if somehow there was a clear denial of Israel's right to exist, if there was a resort to terrorism by Arafat and the elements of the PLO which he controls or has the ability to control. I think if we saw either of those things, clearly we would have serious questions about continuing the dialog.

Let me say that the dialog is not an end in and of itself. We think it could be useful only if it can lead to constructive moves toward furthering the peace process. So, that is the purpose of it, and that's the circumstances under which we would consider terminating it.

Senator **Kasten**. Mr. Secretary, let me just make a couple of specific examples.

He talked about the efforts to recognize Israel, and then not long afterwards, when we or certain Palestinian leaders started talking about the possibility of dialog with Israel, and of working toward some discussions, Arafat's response was 10 bullets in the chest of Mayor Freij of Bethlehem.

I don't think that action is consistent with the public statements he made. I don't think that the continued violence is consistent either. And I don't think the continued border crossings, the continued terrorists infiltrating from Lebanon are consistent.

Specifically, what are your rules? We are trying to encourage a dialog, I would assume, between moderate Palestinians and the people in Israel. Now, 10 bullets in the chest of the mayor doesn't work in that direction. Where are we going to go from here?

Secretary **Baker**. Well, we are going to continue for the time being the dialog, Senator Kasten, to see if we can, as I say, make tangible progress in a way that would contribute to peace in the Middle East until we see some clear renunciation of the principles which he very clearly embraced when he made that statement, principles that the United States has been saying for 13 years. If you say these things and mean them, we will talk to you; if you say them and don't mean them, we won't. And it was going on for 13 years.

Now, we will apply our judgment to whether or not he recants any of those, or whether or not he departs from his renunciation of terrorism, and we will have to look at the facts and circumstances. Probably we will have to look at facts and circumstances in the aggregate.

I think that with respect to terrorism, you can get all sorts of different arguments about the appropriate definition of the term. What does it constitute when it is directed, for instance, against military targets? When it is military to military, can it be terrorism? I thought, frankly, when we lost 250 marines in their sleep in Lebanon, that was terrorism even though those were military personnel. But I don't think you can tie this all up in a very neat, little definitional package. Terrorism is terrorism and I think we will know it when we see it.

Senator **Kasten**. Well, Mr. Secretary, I believe we ought to demand that Arafat eliminate the policy of the so-called arms struggle. I think we ought to take into consideration the violent demonstrations, the rock-throwing, the Molotov cocktails, arson, and such actions. I think we also ought to demand that he support West Bank elections for talks with Israel. We ought to have him end this policy of intimidation that I spoke about. I think we ought to demand these things, and I think they ought to be part of the parameters in order to continue these discussions.

Secretary **Baker**. That would be, of course, adding conditions that we had not had for a period of 12 or 13 years with respect to initiating a dialog.

We are, Senator Kasten, as you probably know, trying to encourage concrete steps on the ground in the area that would tend to diffuse tensions, that would tend to create a better atmosphere that might ultimately help us get the parties into direct negotiations. After all, the only way we're going to ultimately see peace in the Middle East is if we have Israelis and Palestinians talking to each other.

Senator **KASTEN**. I just hope that some of the ideas and concepts that I have expressed here are included in this ongoing dialog. The actions have to match the words.

Secretary **BAKER**. Senator, let me just say this. If you are going to make progress toward peace with respect to this very, very intractable problem, it is our view that you ought to start on the ground. There ought to be a series of mutually reciprocal and reinforcing steps. Both sides need to take some steps.

We have made the point that we don't think that now is the time to go out here and have a big high visibility, high level, international conference as many people around the world, quite frankly, are suggesting. We think there needs to be some steps taken on the ground. Some of the things you mentioned might well be steps that could be taken on that side of the equation, but there have to be some steps taken on the other side as well.

SOVIET REFUGEES

Senator **KASTEN**. I just have one final question. We have a number of questions which we will submit for the record with regard to problems we face in Moscow, Vienna, and Rome when the Soviet refugees come here through funding from HHS.

At every step of the way we didn't anticipate that we would have a larger number of refugees coming from the Soviet Union. This is part of a broader problem, and I know Senator Hatfield and others have been working on similar difficulties in Southeast Asia, as have I. We have tremendous problems coming from Central America as well.

But now, we have a situation which is becoming a major embarrassment to the United States and to this administration. After demanding for years that Soviet Jews be allowed to emigrate, we now have a situation in which sometime in April we are going to run out of money, and in each of the processing places, we have people backed up for 5 and 6 weeks. We have an INS process which is not consistent with the INS process of October and November. We are now refusing up to 16 or 18 percent of the people being interviewed, where before about only 2 or 3 percent would be refused. The whole process is jammed.

Senator Leahy, Senator Kennedy, and I, together with other Members of Congress, including Senator D'Amato and Senator Mikulski from this subcommittee, have introduced legislation which would provide sufficient funds to take care of the immediate problem. Senator Kennedy has advised me that the Judiciary Committee is ready to increase the number of refugees upon consultation with the administration from 25,000 to 50,000.

I would like to know what your reaction is to our legislation and to the overall problem. And I want to emphasize that this is a problem that we have right this minute, and we have to solve it in the next couple of months.

I note that the administration is beginning preliminary discussions on a supplemental of approximately $100 million that would go to this problem. But the money isn't the only problem. The levels of refugees have to be raised also, and the refugee levels are altered on a quarterly basis. Can we front-load those levels so that refugees from the last quarter can be put into this quarter? Are we going to calculate by quarters?

Could you comment on this overall problem, and what you are going to do to help?

Secretary **Baker**. I will be glad to, Senator.

As my statement—I think the written statement, at any rate—indicates, we are in the process of a rather comprehensive review of the whole issue of refugee admissions and refugee assistance. In the meanwhile, we do have a rather pressing problem, and we will be sending up a supplemental of roughly $100 million to address the immediate problem. OMB is now in the process of trying to find some offsets so that the supplemental could perhaps be self-financing. I don't know whether there is going to be total success on that or not.

We do have a problem. That is why we have this review going, and it is something that we are going to jointly have to address. We are going to have to address the question of assistance levels in terms of dollars and we're going to have to address the question of the extent to which we and the American people want to increase numbers.

And we have to do it worldwide because what we are really doing right now is robbing Peter to pay Paul. Senator Hatfield is very interested in what is going on in Southeast Asia. Others are interested in what is going on in the Soviet Union. But there is a major influx of people who desire refugee status, all of whom want to come, of course—many of whom want to come to the United States of America because of our political freedoms and our economic prosperity.

So, it is a problem we have to deal with, Senator, and we look forward to working with you.

Senator **Kasten**. Let me just point out the legislation that we introduced does not envision taking from one quota as we did.

Secretary **Baker**. No; we've done that.

Senator **Kasten**. We took from the Southeast Asian quota. That was not satisfactory to anyone, including a number of the voluntary groups that are working with the Soviet emigres and refugees when they come. That solution is not acceptable.

Secretary **Baker**. We don't like that either, as I indicated. And I don't mean to suggest your legislation would go in that direction.

Senator **Kasten**. We are anxious to work with you, and the State, Justice, and Commerce Subcommittee of the Appropriations Committee is also anxious to work with you, as are Senators Hollings and Rudman concerning the INS. We would like to begin working on this immediately. Who knows? The policies of Gorbachev could change overnight. But at this moment we have a real opportunity.

Secretary **Baker**. That's why we would like to be in a position to discuss it in quite some depth and detail with you as soon as we finish our review which is contemplated for, as I understand it, shortly after the first of May.

I am going to be testifying before Senator Hollings 'committee the middle of April sometime, so we will be working closely with you.

Senator **Kasten**. I hope I won't have to ask you the same questions when you are there.

Secretary **Baker**. Well, you might because our review is going to be finished on May 1, but we at least jointly recognize we have a major problem we have to deal with.

Senator **Leahy**. I want to join with Senator Kasten on that, Mr. Secretary. I think we probably have reached a point where it makes sense to go back and totally look at how our quotas are set up. It is conceivable that the old way of setting quotas just doesn't make sense anymore. That with the great changes in the world—changes in communications, demographics, transportation, and policies—maybe we just need a whole new way of looking at it. I think that there are a lot of people here who are open to that suggestion. None of us are prepared to wave the magic wand and say exactly how that should be done, but sticking to the old quotas does not seem to be working.

We have asked Eric Newsom and Jim Bond to go over to Rome and check on what the situation is there. The bottleneck that has resulted there is very troublesome.

I agree with Senator Kasten's statement that if the policies in the Soviet Union suddenly change overnight, then where do we go from there?

Also, we have a well-deserved reputation as the protector of human rights and being the country of opportunity. We are not a homogeneous society. We never have been. That has been part of our strength and our diversity. We have always held up a welcoming beacon. Unfortunately, that beacon flickers. It gets bright and it dims, it gets bright and it gets dim, and maybe we can find a way to keep the beacon's light a little bit more consistent.

Secretary **Baker**. Well, when you compare it to the rest of the world, it has been very, very bright, Senator.

Senator **Leahy**. When you compare it to the rest of the world, it is very, very bright. And it is one that, as an American, gives me a great deal of pride.

Part of the reason it beams that way is that we are willing to look at the system we now have without prejudgment and think that maybe there is a better way.

Secretary **Baker**. There are no prejudgments.

At the same time, I think we ought to recognize that at some point, we are going to have some very fundamentally tough decisions to make about the whole definitional question of refugees and whether we are talking about hundreds of thousands of people who want to come to the United States simply because it offers a better economic opportunity than some other country.

Senator **Leahy**. It even forces us to analyze how we help some of these other countries develop their own economies.

Senator Hatfield has been sitting here patiently. One of the first things I learned about the seniority system is when you have somebody who is a more senior Senator, you don't keep them waiting. Senator Hatfield?

Senator **HATFIELD**. Thank you very much, Mr. Chairman. I am always happy to wait for you.

Mr. Secretary, I appreciate the opportunity to visit with you today and to indicate that I appreciate the signal that the Vice President gave when he made his visit to El Salvador. I am hopeful that we are looking at that situation in a new perspective. After $3 billion, after 60,000 deaths, and after every measurement of societal life has declined, including per capita income, education, clean water, and housing, it is time for a reassessment of that policy. And I am very happy to see the signals coming from the new administration.

You made a comment about another part of the world last month that suggested we have to look beyond our foreign policy because there are still many unmet human needs in the world which perhaps are at the root of much of the violence we are confronting, terrorism, military and other kinds of violence.

CONDITIONS IN THE SUDAN

And I refer to the Sudan. As I say, I appreciate your focus on that country because the types of things happening out there are mind-boggling. We estimate that 200,000 to 500,000 people died of starvation last year, and that so far this year, things have deteriorated even more.

So, for the record I would like to have you comment briefly on that and what special role you see the United States playing either now or in the future to help alleviate this very dramatic case of human suffering.

Secretary **BAKER**. The case in Sudan, Senator Hatfield?

Senator **HATFIELD**. Yes.

Secretary **BAKER**. As you know, you alluded to my public statement I think in your question. We would expect to continue efforts such as that to direct the attention of the United States and the world to the very difficult humanitarian problems that exist there in Sudan.

The political situation is very fragile, as you know. We have called for the cooperation of all parties to that conflict, the Government of Sudan and the SPLA, to permit the private voluntary organizations at the very least to get humanitarian assistance in to the people who are starving and are suffering.

The United States has given, I think, since January 1988 somewhere in the neighborhood of $60 million to $70 million in food relief specifically to that area. We would expect to continue to take those kinds of steps and that kind of action. The highest priority, of course, is to get food to the people who need it. So, we will be doing whatever we can to advance that, Senator Hatfield.

Senator **HATFIELD**. Who distributed the $60 million to $70 million?

FAMINE RELIEF FOR THE SUDANESE

Secretary **BAKER**. Since February 1988, the Agency for International Development has provided $72.1 million in grants for relief operations in Sudan. Of that amount, $11.4 million was the Office of Foreign Disaster Assistance [OFDA] contribution, $43.2 million was from food for peace grants, and $17.5 million was funding from the Department of State's Bureau of Refugee Program funding.

Private voluntary organizations, nongovernmental organizations and the relief arms of the international organizations, such as UNICEF and World Food Program, distribute relief through AID grants. AID does not conduct relief operations directly, but does work closely with relief organizations in formulating relief plans and facilitating implementation. We also provide funds to the Sudanese Relief and Rehabilitation Commission, a Sudanese Government organization, for the transport and distribution in relief supplies. OFDA publishes periodic relief status reports which have details on relief operations by all sources.

Senator HATFIELD. Mr. Secretary, I am sure you appreciate the fact that the history of food distribution to famine-struck areas of the world has been a rather spotty success story because of the inability to get food to the needy where they live as against merely providing financial or food resources that often end up in warehouses.

I would urge you to look at the possibility of asking an expert or someone who could head up a committee to make a food assessment of the world, not only in the Sudan. It seems to me that this is an often neglected part of our geopolitical thinking. And it probably has indirectly played a military-political role as a result of our neglect.

REFUGEE PROCESSING

Mr. Secretary, on the matter of refugees, I would only caution my colleagues and your office that appropriating money and establishing quotas does not solve the problem. We have not really found ourselves short of money. We have added amendments in this committee to the level of spending, and we have added quotas.

But, Mr. Secretary, more often than not, our frustrations has been in the infrastructure and in the processing. The perception now in the countries of first asylum, particularly in Southeast Asia is that we are shifting our focus and our interest from Southeast Asia to Europe.

Now, I am deeply committed to the proposition of helping refugees, whether they are in Europe or South America or Asia. But I do urge you to look at processing because it can mislead. It can raise false expectations that we can solve problems by merely throwing money at them or by adding quotas if the infrastructure to process those refugees doesn't exist. And that, more often than not, has been our problem in Southeast Asia.

The protection of those first asylum camps poses additional problems. We appropriated money for the protection of first asylum camps in Thailand, and after a long period of time, found out they had never even gotten the protecting agent up to those camps. My staff person visited those camps more frequently than the people from Bangkok who were assigned the role of protection.

I only want to emphasize again that it is going to take a lot from the administration to make these programs function, whether it is European refugees or Latin American refugees or Asian refugees.

Secretary **BAKER**. Could I just say one word on that, Senator Hatfield?

Senator **HATFIELD**. Yes, sir.

Secretary **BAKER**. When we were in Tokyo, the President met with the Thai prime minister, and we discussed these issues and this problem with him. I just want you to know that.

Senator **HATFIELD**. Well, I need not tell you that Thailand has been and probably will continue to be one of the anchors of our alliances out in that part of the world, and it could disrupt our good relationship if we don't address that.

CAMBODIA AND THE KHMER ROUGE

One last question, Mr. Chairman, if I may. At your confirmation hearing, you stated the following: "The United States will continue to work for a new Cambodia free of both Vietnamese occupation and the Khmer Rouge."

In a letter dated February 28, you responded to some questions I had. You reported that you were stressing to China the need to prevent any attempt by the Khmer Rouge to seize power unilaterally. I raise this only for clarification, Mr. Secretary, and what appears on the surface as a contradiction.

Secretary **BAKER**. Yes; well, the latter is the correct position. I suppose the former statement came out of the written statement, and I didn't catch it. You are going to have Khmer Rouge there. The point is it would be extremely unfortunate if they controlled the situation in light of what has happened in the past.

Senator **HATFIELD**. So, if I understand you, you anticipate that the Khmer Rouge will have to be considered and given a role in a new Cambodia Government.

Secretary **BAKER**. I think that that is a fact of life, Senator Hatfield. I think that we have talked about a quadripartite representation from all four of the major elements with Prince Sihanouk being the preferred head of government.

Senator **HATFIELD**. Do you see a role for Pol Pot?

Secretary **BAKER**. No; that is the point. That was the point of the original——

Senator **HATFIELD**. I think this is the one that really clarifies the issue more than anything because, Mr. Secretary, I see under no circumstances that Pol Pot could ever be qualified to participate in any future Government of Cambodia. It would make a farce out of the entire concept of a new free Cambodia to have that person involved.

Secretary **BAKER**. We agree with that wholeheartedly, Senator Hatfield.

Senator **HATFIELD**. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator **LEAHY**. We have agreement all the way around I think on that one, Mr. Secretary.

Senator **KASTEN**. Mr. Chairman?

Senator **LEAHY**. Yes?

Senator **Kasten**. If the Senator from New York would just let me make one brief statement.

REFUGEE COORDINATION

I want to point out that some of the people who have been involved in running some of these programs have been less than responsive to the goals and commitments that all of us on this subcommittee share.

At present we have Jonathan Moore in two different jobs, which I am not sure is the right way to do it. On the one hand, he is ambassador at large, a coordinator for refugee affairs; on the other hand, he is the director of the Bureau of Refugee and Migration Programs in the State Department. He is supervising himself. And the problem here is that we have a kind of a muddled——

Secretary **Baker**. He is supervising the bureau and he is being supervised——

Senator **Kasten**. Coordinating himself. Excuse me.

Secretary **Baker**. He is being supervised up the line.

But if I may say so, Senator, I think we may have already crossed that bridge. I don't mean to mislead you by silence here. The President has already spoken to the person who would occupy those positions.

Senator **Kasten**. And is it your plan to hire the same person for both jobs again?

Secretary **Baker**. Yes; that is the present plan.

Senator **Kasten**. We might want to discuss that more.

We hope that this person is a person with a strong and a deep knowledge of these programs. We cannot just take someone who hasn't had experience in refugee affairs. It is not the spot for someone who isn't versed in these issues, and I hope that we can find someone who is.

Senator **Leahy**. Senator Hatfield, did you have anything?

Senator **Hatfield**. No.

Senator **Leahy**. Senator D'Amato?

Senator **D'Amato**. Thank you very much.

Senator **Leahy**. Your timing is impeccable, Al, as always.

PREPARED STATEMENT

Senator **D'Amato**. Well, Mr. Chairman, first of all, let me apologize to you and to the committee. I had a Banking Committee hearing.

I will spare the Secretary my prepared remarks and ask that they be submitted into the record as if read in their entirety.

[The statement follows:]

Statement of Senator Alfonse D'Amato

Mr. Chairman, I would like to add my welcome to you as this subcommittee's new chairman and say that I am looking forward to working with you and the rest of the committee on the important issues we face in U.S. foreign operations.

I would also like to welcome our first witness of the year, Secretary Baker. I have high hopes that the new administration will be able to preserve and increase the momentum the Reagan administration built in the area of foreign relations. I feel we are on the right road on most initiatives, but we must continue to press ahead.

Terrorism and international traffic in illegal drugs are critical issues. Pan American 103 and crack wars on the streets of the District of Columbia highlight the urgency of these twin concerns. We have made progress against terrorism. The time has come to make a maximum effort against drug trafficers. Our schools, our streets, our homes, and our families will remain at risk until this new threat is successfully countered.

The United States is under attack by these forces. We, as a Nation, must recognize that we are fighting for the preservation of our way of life just as surely as we did in the world wars. The difference is that the enemy hides in the mountains of his homeland and behind the diplomatic curtain of his government.

Our efforts must be focused and coordinated among the departments of the executive branch. The Defense Department has increased its role in halting drug smuggling across our own borders. On the international front, our forces have effectively stopped attacks on commerce in the Persian Gulf and deterred Libyan adventures. But these gains will only be temporary unless our diplomacy is based upon a sound national strategy adequately supported by forces in being and the evident political will to defend our interests around the world.

Thank you, Mr. Chairman.

BURDEN SHARING AND THE FSX

Senator D'AMATO. It is certainly good to see the Secretary here. I saw that you had an interesting hearing yesterday, Mr. Secretary, with the other body and with Congressman Obey. And I want to congratulate you for standing your ground. I don't always believe in the accuracy of things that are reported to us. But, indeed, this is not a time to be cutting back on our obligations in the international community as they relate to our aid programs. That may make good headlines back in our home district, to be debating whether it is Israel or Egypt we are funding. You probably will be exposed to a great deal of that during these difficult budgetary times. But I would suggest that you accredited yourself well, and you should hold the line.

Secretary BAKER. Thank you, Senator.

Senator D'AMATO. On another matter, Mr. Secretary, might I ask you. The question of burden sharing with our allies is an important one. It has been reported that at some point in time you approached the Japanese on the matter of the FSX and that you raised the possibility of amending the agreement as it relates to the coproduction. There is now an agreement that calls for the United States to have 40 percent of codevelopment of the FSX, but you suggested an addition that would provide for 40 percent in terms of coproduction. It has been reported that the Japanese have turned that down and would not go along with it.

Is that an accurate——

Secretary BAKER. I don't believe that is accurate, Senator D'Amato. It is not accurate.

Senator D'AMATO. Could you tell us—[Laughter.]

Senator LEAHY. That's a short answer. Go ahead.

Secretary BAKER. Let me come visit you on that, Senator, or maybe ask the chairman's indulgence that we explore that in closed session.

Senator D'AMATO. Fine.

Senator LEAHY. Why don't I do this? The Senator from New York may want to discuss the FSX issue with the Secretary, then we can either get the information in writing or in a classified addenda.

Secretary BAKER. I would be glad to follow that approach.

Senator D'**Amato**. If we could have a meeting on that, I would appreciate that, Mr. Secretary.

Secretary **Baker**. I'm happy to do that.

NARCOTICS CERTIFICATIONS

Senator D'**Amato**. Mr. Secretary, the question of certification of a number of countries, relative to the cooperation in the area of halting narcotics production and transit, is one that I know is very difficult and troublesome to any administration because, on the one hand, we attempt to gain the cooperation of these countries in this undertaking, and on the other, it is easier said than done. And in some cases, they literally don't have the institutional strength to be able to do much to halt drug production and distribution, nor subdue the cartels and the influence of the drug money.

However, having said that, the concern on certification as it relates to, let's say, areas like Haiti certainly I think is very real and legitimate. It is difficult to be able to understand why no countries have been added to the list of decertification since its inception in 1986 even though certain nations have emerged as major transit or producing countries. And I mention Haiti as an example. I won't touch on Mexico.

Secretary **Baker**. What as an example, Senator?

Senator D'**Amato**. Haiti.

Secretary **Baker**. Haiti.

Senator D'**Amato**. I would say to you that there are other countries, too.

For example, the attorney general of the Bahamas has promised not only myself, but other members of this committee and other committees that he would provide us with information relating to indictments that were laid and charged against the major traffickers. But, the fact is that there has not been one prosecution of those cases. They have a system. They indict them, and then it languishes for 1 year, 2 years, 3 years, 4 years, and 5 years. And they promise action.

Last year I joined with a number of my colleagues in working to give the Bahamians an opportunity to demonstrate their good will. I can say to you that notwithstanding their attorney general's promises to do something, they have not come forth and they have not demonstrated that their actions are going to meet their rhetoric.

I will join with my colleagues this year in working to decertify the Bahamas. If we have this certification process, either we should I think follow through on it or maybe revoke it. The Bahamas' cooperation is limited to the surveillance which they do undertake with us. But when it comes to actual prosecution, there is none, and it doesn't make sense to this Senator.

Would you care to comment?

Secretary **Baker**. Senator, I think the certification with respect to the Bahamas made it clear that it is our view that they can do more and they have to do more in the future. To some extent you could call it a conditional certification. The President I think explained with respect to that particular case his reasons for certification.

Let me say I am intrigued by your statement that we ought to maybe take a look at this whole area and this whole process. I couldn't agree with you more.

We have to find the best way to get producing and transit countries to cooperate with us. And the best way may not be to decertify and, therefore, cut off assistance that we would give those countries in order to implement antidrug programs. That just may be cutting off our nose to spite our face.

So, in sending this report up, I called for a cooperative relationship with the Congress that I suggested we really ought to exchange a full range of ideas on the best way to forge an integrated and cohesive national strategy in this area because I quite agree with you. Sometimes these exercises we go through can be counterproductive.

Senator D'AMATO. And I would leave you with one last thought, Mr. Secretary. I hope that we could at some time, maybe when we are discussing the FSX—get into some of the very sensitive matters related to the certification issue and Mexico. But that is a very, very troubling area.

We know that there may be certain elements of the Mexican Government that are committed to undertaking a very real war with the drug traffickers and drug cartel. But we also know from various sources and reliable ones that there are extensive areas of government and military who would appear to be coopted out by the drug traffickers and are part and parcel of the problem. This is going to be I think a major consideration for the Congress as it relates to the certification of Mexico.

And to be very candid with you, at this point in time, my inclination is to be supportive of an effort to decertify them unless there can be put forth some very tangible reasons why that might not be in our best national interest, and particularly as it relates to the drug problem.

Secretary BAKER. Could I argue, Senator D'Amato, for a moment that it would not be in our national interest to do that with respect to either of the countries that you had named without trying to distinguish between the two.

But let me specifically say with respect to Mexico that the President noted in his statement that has come up here several I think very important improvements in the Mexican program, including some increased eradication efforts and expansion of Mexico's resource commitment to the fight on drugs.

He also noted in the report—and it is quite true—some problems, particularly that opium and heroin availability didn't diminish, that marijuana cultivation may be on the increase and some other problems. That is a fairly strongly worded assessment I think to make about any country, but especially one that is a close friend and an ally with whom we really have many historic, social, cultural, and economic interests.

The point I want to make to you is that we have established an early and good relationship with President Salinas. For what it is worth, we are convinced that he really is very, very sincere in his desire to attack this problem not just because of the relationship with the United States, but because of what the problem presents as far as Mexico is concerned.

He knows the problems that have to be overcome. He has every right to expect a fair assessment from us, but he also has every right to expect our continued cooperation. We have a new government there. It is an extremely important country insofar as the national interests of the United States are concerned. So, if there is any way when we are talking about the FSX that I can dissuade you from pursuing a decertification course with respect to any of these countries, I would like to talk you out of it.

Senator D'AMATO. I might be amenable to some kind of understanding.

Secretary BAKER. No; I'm not suggesting that kind. I just say we ought to explore this question as well.

PANAMA

Senator D'AMATO. I look forward to it, Mr. Secretary.

Mr. Secretary, let me make one other observation, if I might with the indulgence of the committee.

I believe on May 7 there will be an election in Panama, or at least it is scheduled. That has been a sad situation.

I hope that the United States does everything we possibly can do to bring in observers or attempt to get other countries in the region to provide international observation of these so-called elections, to see to it that they are free, to see to it the world is monitoring this because I cannot believe that Noriega is going to allow a change. If he doesn't try to steal the elections, he will probably call them off.

But I would hope that we would be in a position to focus worldwide attention and to give the people of Panama the hope and the understanding that we are committed to democracy and we will continue a policy that will not give recognition to Noriega and to his fellow henchmen.

Secretary BAKER. I couldn't agree with you more, Senator. That is our present view and intention. And I said yesterday, during the course of the hearing over on the House side, that based on what we know about public opinion down there, General Noriega is very, very unpopular. And given half a chance at a free and fair election, I think there could be some cause for hope at least that a reasonable opposition candidate would have a chance.

So, it is important I think that as that election approaches, we direct the world's attention to the election and to the manner in which it is carried out and we point out any attempt that might be made to, in effect, steal that election.

Senator D'AMATO. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

NARCOTICS CERTIFICATION PROCESS

Senator LEAHY. Thank you, Senator D'Amato.

I am going to yield in one moment to Senator Specter.

On the question of certification, Mr. Secretary, how involved does Dr. Bennett get in questions of certification of other countries? Will he be consulted and will he be a significant voice in the decision?

Secretary BAKER. He will be in the future, Senator.

Senator LEAHY. In the future.

Secretary **Baker**. He was not here when this deadline arrived.

Senator **Leahy**. In hearings held by some of the committees before which he will appear—the Judiciary Committee and others that I serve on—he is going to be asked openly for his candid, blunt assessment of whether certification makes sense or not. I realize it is not a situation where you could just decide mathematically, and I realize there are a lot of other issues involved.

But we are at a point where we pass the laws on certification, and we have to ask ourselves if we do it just because it makes us feel good or because we feel that we have struck a blow for freedom. We're all against drugs, but we have to decide if we are going to follow through with certification guidlines.

I don't want the whole issue of certification to be as symbolic as the paper bags we see in white, middle class suburban grocery stores which say "just say no to drugs." The bags tend to allow us to leave the grocery store feeling secure knowing that the drug traffic has now stopped. I want to make certification, if we are going to use it, really carry some teeth.

Secretary **Baker**. I think what Senator D'Amato suggested would really be worthwhile, Mr. Chairman, if there was a sufficient interest on the part of others up here. I think it would be worthwhile to take a look at the whole process.

It is very easy to stand up here, in effect, and beat our chests and say that the drug problem in the United States is the fault of other people. But I know from having discussed this with the President, I know from having discussed it as well with Bill Bennett, that the demand side of this equation is extraordinarily important. And we need to perhaps focus a little bit more on that because our drug problem may be contributed to by others, and we ought to find a way to work with them to eliminate, to the extent we can, that contribution. But it isn't caused by others.

Senator **Leahy**. I would make one last point. I wish Senator Rudman were still here because he and I made the same point on the floor when the drug bill was coming up.

Let's also be realistic about what all this is going to cost.

Secretary **Baker**. Sure.

Senator **Leahy**. Every one of us have given speeches on no new taxes and so on. I don't want to get into that issue. But I guarantee, if we actually looked at the real cost of a drug program, and if we told the American people we were going to increase your taxes 25 or 50 cents, 75 cents a paycheck, but it is going to go specifically into the drug program, there would be overwhelming support throughout the Nation. But only if they knew that it would be earmarked to combat drugs.

If we really did everything from education to treatment to law enforcement to interdiction, all the way up and down the line, then figure out what the bill is going to cost, I think that would be one time where everybody would say we won't hold you to any campaign promises as long as you earmark it for that.

Senator Specter?

Senator **Specter**. Thank you, Mr. Chairman.

Mr. Secretary, I want to use my few moments this morning talking about terrorism, but I would like to use some of Senator D'Amato's time before I start on this issue of certification.

There was a recent announcement that Colombia would be certified, and when I saw that, it just seemed to me that the whole business of certification had lost any meaning. Now, Colombia has refused to go forward with the extradition treaty with the United States. Colombia is in a state of anarchy. Colombia has had the minister of justice murdered, the attorney general murdered, the supreme court chambers were taken, 11 supreme court justices were murdered. And if Colombia is performing satisfactorily by any standard, it just seems to me that certification has absolutely no meaning.

So, when these summit talks come up on certification between the Secretary and Senator D'Amato, I would like to be counted in because we really perhaps ought to redefine what we mean if we are going to have some standard.

Every year in the Foreign Operations Subcommittee, we come to the conclusion almost unanimously that none of these countries ought to be certified, and then we back down because of the exigencies of the problems. But it is a very, very unsatisfactory standard. And perhaps we ought to sit down and talk about it with you and try to come to a new definition.

Secretary **Baker**. I think that would be very welcome, Senator Specter, because maybe it is not just an unsatisfactory standard, but an unsatisfactory approach overall because it occurs to me that there has been a fair amount of heroism in Colombia.

Yes; they have lost supreme court justices. They have lost a lot of other public officials to the drug cartel. They have lost them because they were trying to do something about it. And if we decertify them, they are not going to try and do anything about it. So, you have these competing problems.

The question really we need to sit down and thoroughly think through is whether this moves us in the right direction or in a counterproductive way.

Senator **Specter**. But when you have a legislative body which won't ratify an extradition treaty, I think we just have to put some standards on accomplishment, on results. It is very hard to measure efforts. How hard they are trying is extremely subjective. But I would like to talk to you about terrorism.

Secretary **Baker**. Yes; I will tell you one thing. If we decertify, there will be two chances of ever getting that treaty enforced again: slim and none. And I think there is a little more than that today, maybe not much more.

INTERNATIONAL TERRORISM

Senator **Specter**. I thought it was less. I thought it was just hopeless to get the treaty ratified.

Well, on to terrorism. We pick back up on Colombia in a few minutes.

Mr. Secretary, this is an unusual day because we have something to be proud of in terrorism and our fight against terrorism with the conviction of Fawaz Yunis yesterday, and on a very rare occasion, I think compliments are in order for the Reagan-Bush administration and the CIA and the FBI and the Department of Justice and even the Congress in passing the legislation in 1984 and the supplemental legislation in 1986 to establish long-arm jurisdiction. It was a great case where our investigators went to the Mediterranean and lured Yunis onto the boat, and took him into custody, brought him back to the United States, and held him in custody, and tried him and convicted him. And I think that is an accomplishment that we ought to build on.

And I know that the President and you and the entire administration are determined to go forward and do as much as we can with the long-arm jurisdiction.

What I would like to call to your attention first this morning is the interest in the Congress in having an international court to try terrorists. In the 1986 legislation which broadened our long-arm jurisdiction on terrorism, there was a sense of the Congress resolution that the administration explore the possibility of having an international court. And Secretary of State Shultz thought it was an idea worth pursuing, and we had conversations with Judge Sofaer on the subject. And then last year in the drug bill we adopted a similar sense of the Congress statement that we ought to have an international court on terrorism which fits in directly with your statement about the twin scourges of terrorism and drugs.

And the essential point for an international court would be that there are cases, perhaps like Abu Abbas, where Egypt couldn't turn Abbas over to the United States without having terrible repercussions in Egypt domestically as President Mubarek has said, but they might have been able to turn him over to the United States or perhaps Yugoslavia could have done so. And similarly with Mata, the drug dealer, where he was turned over to the United States without extradition, and they had the riots in front of our embassy in Honduras.

So, I would be interested in your thinking on the possibility of an international court—there have been some indications that the Soviets might be willing to cooperate on terrorism and on drug dealers—and what you think we might be able to do in an activist way in pursuing that objective.

Secretary **Baker**. Senator Specter, I think there is some chance that we can get some cooperation from the Soviets on the whole range of these transnational or global issues, drugs, terrorism, the environment; we have added those to the agenda of our regular discussions with the Soviet Union.

With respect to the idea of an international court for terrorism, I frankly think it is a very interesting idea. I probably share your interest in it because of my background as a lawyer.

I do think that it has some problems. As I understand it, there have been discussions exploring the idea within the legislative and executive branch I think. I know that it has been the subject of discussion downtown. As I understand it, there are some major procedural, substantive, and perhaps definitional problems. For example, the question of who would conduct the investigations, who would bring the prosecutions, the exact composition of the court, things like that. Of course, we could probably reach some sort of a U.S. position on this matter and then after some period of time, perhaps an international agreement.

There would be, it seems to me, some fundamental problems in getting an international consensus on the scope of the tribunal's jurisdiction and, perhaps more significantly, on questions involving the definition of terrorism. As noted in the exchange I had a moment ago with Senator Kasten, it is very difficult to reach a universally accepted definition for terrorism. And as we know, Syria and other countries have in the past introduced resolutions in the United Nations which have sought to define terrorism in a way that we would probably not agree with.

But the bottom line answer to your question is, I think, that it is an interesting idea and we ought to continue to explore it.

Senator SPECTER. Well, the definitional aspect is tough if you start to get involved in who is a freedom fighter and who is a terrorist. But there are some acts on which I think there could be agreement, for example, a hostage taking, or hijacking an airplane, or shooting down people in the Rome or Vienna airports.

I had an occasion to talk to President Assad of Syria about this subject, and he expressed an interest in pursuing it. I talked to him about a limited definition. And while many speeches are made for propaganda purposes, even President Assad—or maybe I shouldn't say even President Assad. He was prepared to talk about it. Wherever I have had an opportunity to talk about the subject, I have, and I find a lot of interest in it.

So, I would be hopeful, Mr. Secretary, that we might put it on the front burner. And I would be very pleased to work with your designees on it to move it ahead. We have a meeting coming up with the North Atlantic Assembly where there is some considerable interest in the subject, and our NATO allies would be a good place to start.

Secretary BAKER. How recently have you had a discussion with the legal adviser on this, Senator? Has it been recently?

Senator SPECTER. Well, I had a discussion with the last legal adviser, Judge Sofaer, last fall.

Secretary BAKER. That is who——

Senator SPECTER. Yes; he is very interested in it and wants to pursue it.

Secretary BAKER. Yes; let me say that I think it is a very interesting idea and I welcome the opportunity to pursue it with you.

Senator SPECTER. Should I pursue it with Judge Sofaer?

Secretary BAKER. Yes; he is the legal adviser. Yes; that would be the appropriate person.

Senator SPECTER. Fine, I will do that.

DISCUSSIONS WITH THE PLO

Now, Mr. Secretary, let me talk to you now about the subject of the PLO and terrorism and the very difficult questions which are raised in the Mideast peace process. And I am sorry if I have missed some of the discussion. I know you were talking about it, but I had to be in other committees, and I was on the floor briefly.

I note a quotation attributed to you in this morning's Post to this effect:

> It is an element of our policy to promote direct negotiations which can be meaningful between Israelis and Palestinians. Now, if you can't have direct negotiations that are meaningful, that do not involve negotiations with the PLO, then I suppose my original answer would cover the question. We would then have to see negotiations between Israelis and representatives of the PLO.

Is that about accurate?

Secretary **Baker**. I think so, roughly, yes.

Senator **Specter**. The concern that I have is this. My concern is that the PLO has a record of terrorism, Arafat personally having been involved in the murder of our ambassador in the Sudan back in 1974, many acts involving others, the Israeli athletes in Munich, involvement in the hijacking of the *Achille Lauro*. And one of the things that I think the United States has not done an adequate job on is in telling the world what the facts are about Arafat so that he is regarded highly in most places in the world, thought of as a diplomat and is accorded great, great respect.

Now, we have the situation where Arafat has really shot his way into the bargaining room. He has shot his way into the bargaining room because people are afraid of him.

We have the case of Mayor Freij in Bethlehem, and I had occasion to talk to Mayor Freij shortly after he had made the proposal that the Intifada ease off and that the Israelis ease off, that there be a cooling off period in the administered territories. And then Arafat made the statement that he would put 10 bullets into the body of anyone who tried to interfere with the Intifada.

Now, Arafat later denied saying that.

Secretary **Baker**. That's right.

Senator **Specter**. And the problem that he found on that case was that there was a tape recording of his statement. And to be precise, he did not identify Freij by name in the statement, but in the context that it was made, it was clear that the conversation related to Freij.

I had occasion to visit with Mayor Freij on January 12, just a few days after the incident occurred. And he was very circumspect in his language and he wasn't blaming anybody because he wanted to live the next day. But it was plain that he was scared to death by what had happened.

Now, I agree with the first part of your statement. I know that this is an extraordinarily difficult subject and there aren't any easy answers at all, and the question is whether there are any answers. I realize that.

And the goal of having representatives of the Palestinians—and I think there are many in Israel who are capable of being representatives of the Palestinians to come forward and talk to the Israelis other than the PLO. But if you say that you want to give the Palestinians a chance to have representations other than the PLO, but if that doesn't work out, then you may have to go to the PLO, isn't that really an open invitation for the PLO to make sure that the Palestinians never have meaningful negotiations because the PLO will terrorize them?

Secretary **Baker**. I don't think so. I don't think so at all, Senator. It seems to me that what I have expressed there is the view that, first of all, you're not going to have peace without direct negotiations between Israelis and Palestinians. If that can be accomplished through a dialog between Israelis and Palestinians in the occupied territories, that would be, of course, a preferred approach, but we ought not to rule out categorically, absolutely, and unequivocally consideration of going beyond that if it is necessary to move toward peace in the Middle East. That is all I said, and that is what I mean. And that seems to me to be an eminently reasonable position to take.

Senator SPECTER. But, Mr. Secretary, if Arafat and the PLO know that they can move from the wings to center stage if the other Palestinians do not have fruitful negotiations with the Israelis, isn't that an open invitation for Arafat and the PLO to terrorize the other Palestinians?

Secretary BAKER. I don't think so, Senator. And I didn't say that they would move. But I do think that it is important that we simply not categorically, absolutely, totally, and completely rule out under any and all circumstances any dialog that might lead to peace. I just don't think we ought to do that.

Senator SPECTER. Well, I would agree with the generalization except that I would disagree with the context that you were quoted yesterday—and as you say, that is about what you said—We know that the PLO engages in acts of terrorism, and if they have an incentive to stop the other negotiations between the Palestinians—let me ask you this.

Secretary BAKER. Look at what has happened. Those negotiations have led to the situation that we now are experiencing in the occupied territories, Senator, which is, I'm sure you would agree, a totally unsatisfactory result for all parties.

Senator SPECTER. Well, I agree, but if a man like Mayor Freij sticks his head up and he doesn't get shot down because the bullet misses and then he won't put his head up again, what incentives are there for Palestinians to come to talk to the Israelis if the PLO will take over if they fail?

Secretary BAKER. Let me simply repeat your words when you posed the question. You are quite right. This is an extraordinarily difficult area, a very intractable situation, and my view is that we ought to explore all reasonable means that might move us in the direction of peace, and that we could be faulted if we did not.

Senator SPECTER. Well, you and I agree on that statement. We just may disagree on what is reasonable.

Let me ask you one final question, and that is if the PLO engages in terrorism to discourage other Palestinian representation, would that then rule out the PLO as an acceptable negotiator in your opinion?

Secretary BAKER. I will decline to do for you what I declined to do for Senator Kasten, and that is try and define in each and every circumstance under hypothetical cases when we might or might not break off our dialog. We can't do that because there are definitional problems. And if the PLO resorted to terrorism, failed to keep their commitment to renounce terrorism, it would be an occasion for the United States to break off its dialog.

Senator SPECTER. Well, I can understand the difficulties in defining it as you articulate it. I think it is a little different when you come to the question of what the United States would say about PLO representation if they, in fact, caused the vacancy by shooting their way into the bargaining room.

Secretary BAKER. I guess what I am saying is I would decline to speculate on hypotheticals. We would have to address those questions as and when they occurred.

Senator **Specter**. Well, I appreciate what you have said before about—the State Department about the range of PLO terrorism. I think you are on the right track. I know you inherited the policy of talking to the PLO. And I believe these discussions are very good because they have an exchange of ideas as to what we think and what policies we would ask you to consider.

Secretary **Baker**. You know, Senator, if I may just say one other thing, I have seen a lot of foreign leaders during the course of the past 7 or 8 weeks, all of whom would really like to see the United States move a bit more aggressively in this area toward the support of some high level, high visibility, international conference or other initiative in the Middle East. And it has been my constant reply to them that we really believe that we ought to do whatever we can to improve the atmosphere on the ground first, see if we can improve the atmosphere so that we might ultimately get to a position where negotiations could take place.

Some people fault that as too low key an approach and so forth, but that, nevertheless, is the approach that the President has opted to pursue. And frankly, we were pleased this morning to see that approach endorsed, at least for the time being by one of the lead editorials in one of our Nation's major newspapers.

So, this is what we are trying to do and we really ought to at least be willing to explore every reasonable avenue that could move the process forward.

Senator **Specter**. Thank you.

Thank you, Mr. Chairman.

Senator **Leahy**. Mr. Secretary, just for a moment on this last subject. I do agree with your unwillingness to go into each and every hypothetical on this or any other touchy subject of that nature. I also appreciate your expressed willingness for you and your Department to keep us generally briefed on what is going on.

It is my impression, after discussions with people in the Middle East and people who are far more expert on the Middle East than I am, that the United States is about the only country that really has credibility with all the parties involved, including the Israelis. More and more you are going to find them looking to the United States for a solution. You are talking about speaking with other world leaders who ask "Why aren't you moving aggressively," and so on. I think that is a natural reaction because they see us in that pivotal role.

No matter which solution we come out with or which solution we are willing to recommend, the individual countries are going to have to decide whether they accept it or not. To be a workable solution, it is also going to be, in many respects, an unpopular solution. If there was an easy and popular solution, it would have been implemented long before you and I ever got to this discussion, and a whole lot of people would be considering themselves national heroes for having come up with it. But there isn't any easy solutions.

Whatever recommendations you are going to make will require broad U.S. support. That means the administration has to be behind it and the Republican and Democratic leadership in the Congress is going to have to be behind it. None of the recommendations from this country will work if some of the parties inimical to each other thought that we were splitting apart in whatever support there is here because then they would use the divide and conquer routine.

Also, in the countries involved, even within the governments of the countries involved—and I think especially of Israel—the governments are going to have to make recommendations that are going to be unpopular in their own country, unpopular within their own governments. To get the kind of cover necessary, they are going to have to point to some pretty solid support here in the United States.

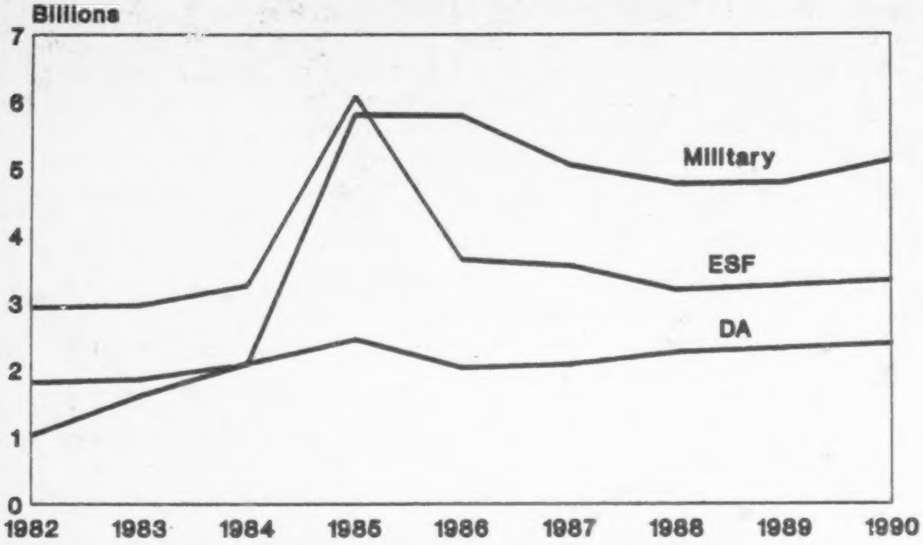
I am probably stating the obvious, but I would hope that all of us would realize that maybe there is a real opportunity now for the United States to move forward on that kind of a recommendation. But it works only if we are united on it. And then some of the political leaders, not only in Israel, but in other countries involved, can take steps they might not have been able to take otherwise if they could point to that solid backing here. If they can't point to it, maybe I'm overly pessimistic, but I don't think that they will do anything at all.

Secretary **Baker**. Thank you for saying that because, again, I totally agree with what you have just said. And hopefully, we can see things develop in that direction. I hope so.

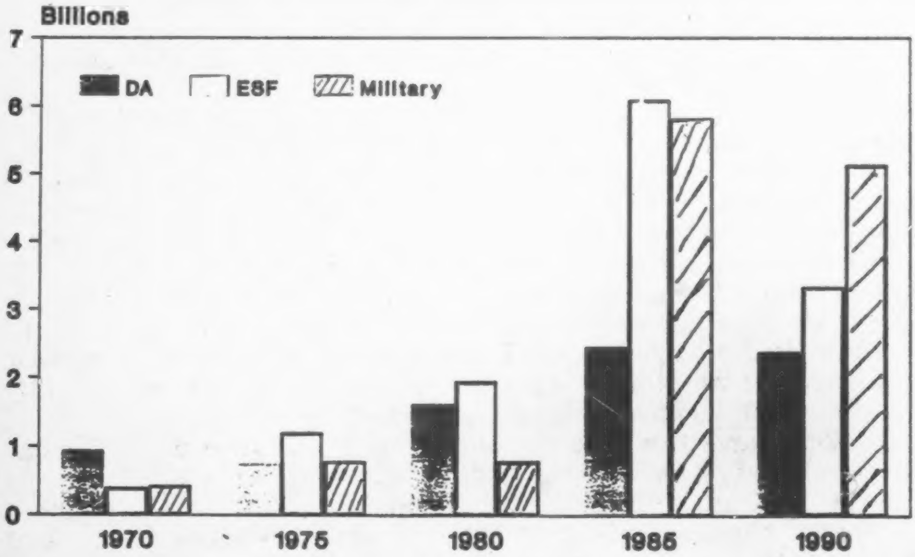
TRENDS IN FOREIGN ASSISTANCE

Senator **Leahy**. Mr. Secretary, we have put up on the board here some of the appropriation trends. As you can see back in 1970, development assistance was the leading part of foreign aid. By 1975, it was about equal with military, and ESF moved up. In 1980, development assistance moved up again, military dropped, ESF increased more. After that, the development assistance trends fell well behind the rest of the appropriation, ESF and military—especially military—sort of ran away with it.

Appropriation Trends
FY 1982 - FY 1990



Appropriation Trends
FY 1970 - FY 1990



Now, whether that is good policy or not is probably not part of this debate, but it does reflect what we are going to be faced with.

Congressman Obey and you had some discussion on the budget yesterday. And if I were to read the papers correctly, you did not have a complete meeting of the minds. Would that be safe to say?

I understand that you and Congressman Obey did not completely agree when he handed you the already marked-up, sequestered bill with a billion or so dollars taken out. To play the devil's advocate just for a moment, if we do not have a real budget summit, at some point you may be glad to have somebody hand you something like that saying here, if you don't agree with our billion and a half cut, make your own billion and a half cut and take out——

Secretary **Baker**. That is not what he said, Mr. Chairman.

BUDGET NEGOTIATIONS

Senator **Leahy**. Well, I know, but that is what it is going to come to if we don't have a real budget summit.

I am not going to do that, as I said in my opening statement. We are going to try to work this out.

We know there are going to be real budget negotiations. I don't have any question in my mind and from what the President said there really will be. Everybody will do their pirouette and put it in the light most favorable to them. But eventually we get down to actual numbers on the table.

Are you going to be personally involved in that? And if so, the question is this: Do we lump all the State Department budget in together along with foreign assistance, or do we fence foreign assistance?

Secretary **Baker**. Well, to answer the first question, I have enough coming at me now to keep me busy for a while, and it would be my inclination not to be personally involved in it if I could avoid it. Let me tell you what we did in 1987.

The Treasury and the White House headed it up. But we used the National Security adviser sometimes, sometimes the Defense Secretary to look out after the national security component of the budget. And the 150 function—we got a specific agreement from the administration as well from the leadership on the Hill—would be treated as a part of that mix, the national security mix, and would not be treated as just another domestic program. And we established a level at the very beginning for the 150 function.

I would hope that maybe that is the way it would work this time because there is a great temptation, of course, to raid this account for other domestic programs if you lump it over on the domestic side. I would hope that is the way we could handle it procedurally this time if a budget summit develops because, quite frankly, I really don't have the time to commit to it. If, however, the President concluded he wanted me to do it, that's what I would do.

As far as not differentiating between the State Department budget and foreign assistance within the 150 function, I think it would probably be better not to do that, Mr. Chairman. If you were asking me what our druthers are, that's what our druthers I think would be to treat foreign assistance and the State Department budget separately within function 150.

Senator Leahy. That may well be wise because you may find it impossible to staff some consulates around the world if they were not treated separately.

FREEDOM OF INFORMATION ACT REQUESTS

Incidentally, I chair another committee, the Judiciary Subcommittee on Technology and the Law. It has jurisdiction over the Freedom of Information Act. There was a Washington Post article last week in which the State Department was asked whether it is foot-dragging on FOIA, the Freedom of Information Act. Also, GAO reported that the State Department is doing a poor job processing FOIA requests. As a practical matter, State has had a terrible record for processing FOIA requests.

Tomorrow is James Madison's birthday. I am sure everybody is aware of that. I am always aware of it because it comes the day before St. Patrick's Day. I would like to remind you of something he said in 1822.

> A popular government without popular information or the means of acquiring it is but a prologue to a farce or a tragedy, or perhaps both. Knowledge will forever govern ignorance, and people who mean to be their own governors must arm themselves with the power which knowledge gives.

He was writing 150 years before the Freedom of Information Act, as though he knew it was coming.

Enough of a speech. Please take a look at what is going on. This did not happen on your watch. But a year from now, if they are still having trouble with FOIA down there, it will be on your watch. And there is no need for it.

Secretary Baker. I agree with that, Mr. Chairman. Let me just say that I think it is fair to say that the Department has improved its handling of these requests in the past year. It is likewise true to say that we still have a way to go before we get to a satisfactory level or standard.

We have decreased the size of the backlog that existed down there, as I understand it. In 1988, we had a backlog of 3,700 requests at the start of the year, and those were reduced to about 1,700 at the end of the year. Still, we need to do better.

There is one factor I would mention in mitigation, and that is when you are asking for documents from the State Department, you are frequently asking for material that is classified. So, it is a little bit different than asking for material that is not classified. And we have to be careful that we don't jeopardize the confidence, of course, that other nations have in us and the way we handle that information.

But I do agree with you. We can do better, and I will seek to do better.

Senator Leahy. Senator Kasten?

ENVIRONMENTAL RESOURCES IN DEVELOPING NATIONS

Senator Kasten. Mr. Chairman, thank you.

Mr. Secretary, I have just one other subject area that I want to touch on.

With your leadership both at the White House and at Treasury, the United States has insisted on strong voting criteria to protect the environmental resources of developing nations. As you know, from the work that we have done together, going back to 1983 and 1984 and 1985, the United States cannot change these institutions alone because we don't control the governing bodies of most of the MDB's. We don't have a veto. They are operating on consensus, et cetera.

Because of that, the Foreign Operations Subcommittee included instructions to both State and Treasury in last year's foreign operations bill asking the State Department to solicit support from other donor nations in calling for an environmental reform of these institutions.

We said that the Secretaries of the Treasury and State, in cooperation with the Administrator of the Agency for International Development, shall conduct bilateral and multilateral discussions with other members of the MDB's to further strengthen the environmental performance of each bank. These discussions shall include, but not be limited to, organizational, administrative, and procedural arrangements to remove impediments to the efficient and effective management of assistance programs necessary to protect and ensure the sustainable use of natural resources and to carry out such assistance programs in consultation with affected local communities.

Have you, Mr. Secretary, had the opportunity to take any of these actions in your work with other countries who are members of the MDB's, and what kind of progress do you anticipate we are going to be able to make?

Secretary **Baker**. Well, Senator Kasten, you know of my commitment in this regard because we have worked together with respect to it over the years.

One of the first things I did, after I was sworn in, was to speak to the response strategies working group which happened to be meeting in the Department the day after I was sworn in.

I have discussed these matters at length with Bill Riley of the EPA.

You probably saw where the President embraced the principle of elimination of CFC's by the year 2000 here not long ago which had been a hotly debated topic and subject in the prior administration.

I cannot pinpoint any specific discussions with other member countries other than the general discussions I have had with my counterparts when I went to all 16 of the NATO countries. We talked about the environment. We talked about environmental matters. I have gotten an agreement from the Soviet Union to include the environment as a part of the global issues that we will have on our agenda regularly during our ministerial meetings. So, I think that I have been moving, as I have in the past, in a direction that you would approve as far as environmental questions are concerned.

What I can't tell you is that I have specifically in response to that provision of an appropriation bill sought out every member state of the World Bank and talked to them specifically. I haven't done that.

Senator **Kasten**. Well, Mr. Secretary, as I said, I thank you for the work you have done and your leadership. This issue is one where we have made a little progress and I am hopeful that you can continue to work with us. I just wanted to remind you of that language.

Secretary **Baker**. You are aware too that there were discussions when the President went to the Far East, Senator Kasten, involving the importance of preserving rain forests and so forth.

Senator **Kasten**. I appreciate the discussions with the Japanese on that Brazilian rain forest issue. That will be ongoing, too.

I have a couple of other questions with regard to Philippine environmental management. There are assistance programs there which are run by about 30 U.S. private voluntary organizations, and some effort needs to be made to coordinate those groups in promoting environmental and resource management in the Philippines. I would like to submit those questions to you for the record. Then you can get back to us.

I thank you for your testimony, and let me say once more how much we look forward to working with you in your new capacity as Secretary of State.

Secretary **Baker**. Thank you, Senator.

Senator **Leahy**. Mr. Secretary, I know you have to leave. I think Senator Specter had one more short question that he wanted to ask.

ASSISTANCE TO ISRAEL AND EGYPT

Senator **Specter**. I hadn't written out the question yet, so I am not sure that it is short. But I want to cover one more topic with you, and I will be relatively brief and it is this, Mr. Secretary.

The funding for Israel and Egypt is not conditioned, but the statement of law says this, that it is the sense of the Congress that the recommended levels of assistance for Egypt and Israel are based in great measure on their continued participation in the Camp David accords and upon the Egyptian-Israeli peace treaty.

There are frequently calls made for suggestions to Israel. Let's not call it pressure. Let's call it suggestions.

I think that there might be more suggestions usefully made to the Egyptians and to President Mubarek. When he first came to the United States in 1982, after succeeding President Sadat, it seemed to me that he was a lot more outgoing when he addressed a group of Senators in S–207. And I have had occasion to get to know President Mubarek and to observe him, and I think generally he is a very strong ally of the United States and has done very good work.

In his efforts to bring Egypt back into the Arab fold, he has made that I think clearly his highest priority. And I don't quarrel with that. I think that is in Egypt's interest. I think it helps the United States. I think it helps Israel. It is very good for Egypt to be on solid ground with the other Arab states.

But I believe, Mr. Secretary, that President Mubarek could do in this process. And in talking to him and also talking to King Hussein, they are recognizing the PLO at this time, but it seems to me that they are not——

Secretary **Baker**. I'm sorry. I didn't understand what you just said. They are what?

Senator **Specter**. Recognizing the PLO, and they are pressing the PLO as the spokesman for the Palestinians.

And as my prior line of questions and discussion with you suggested, I have grave concerns that that is going to work out in the long run. Listen, whatever works, so be it, if it is acceptable to the parties involved. We are making suggestions from a great distance and I think they ought to be viewed as suggestions only and not pressure. Ultimately the Palestinians and the Israelis will have to work it out.

But I just wanted to make this one suggestion to you that I believe that President Mubarek—I am sure he could do a great deal more, and I think he might be inclined to do more.

When the Egyptian Ambassador was recalled from Israel in 1983, he made a commitment to return the Ambassador within 1 to 2 weeks in June, and he didn't follow up for a very long time because of his own reasons. And there was a very strong support from the United States for President Mubarek to do that.

And my own sense is that he could be much more of a forceful player there. And where you have very substantial foreign aid and you have it with a reference on sense of the Congress, it seems to me that that is an issue which is worth talking about. And there are many of us who do talk to him about that. And I just wanted to call that to your attention because I believe that he could well be the key to unlocking new doors in the Mideast.

I don't have a question, Mr. Chairman.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. Thank you.

Mr. Secretary, I appreciate your being here.

We will hold the record open for written questions.

I appreciate your willingness to work with us. I appreciate the open communications between your office and mine. I know the same is true with Senator Kasten. Bob and I have worked closely on a lot of issues, from domestic policy to foreign policy, in the past, and I have no doubt we will continue to do so.

People speak fondly of the Vandenberg era. I would remind all historians that if you read carefully, even the Vandenberg era was not the Vandenberg era that they speak of. But it is a nice goal at least in nostalgia. I would stress, Mr. Secretary, that it would be my intention as chairman to at least make every attempt at approaching the kind of attitude that is connoted by the Vandenberg era.

We have very major problems in the Middle East that can be helped by strong bipartisan support here. In Central America, where we spend enormous amounts of money, again, a strong bipartisan policy is needed. There are a lot of other parts of the world desperately in need of American help such as the sub-Sahara. The Third World debt problem is a major crisis facing us. We must work with our allies to get them to contribute more foreign assistance and do it in a way that maintains some of the goals of the whole world, such as global warming, the protection of the ozone, and so forth.

So, Mr. Secretary, I come here, as I said earlier, as a new chairman. You are here as a new Secretary. I offer you the hand of cooperation and friendship. Let's work together.

Secretary **Baker**. Thank you very much, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

GAO REPORT ON CENTRAL AMERICA

SENATOR LEAHY: GAO recently testified that over the past eight years, the United States accomplished less than it had anticipated toward achieving regional stability, promoting democracy, and attaining equitable development in Central America. Would you comment on the GAO findings and explain why the United States did not achieve its goals.

SECRETARY BAKER: Let me say, Senator, that the GAO has not yet issued a final report. The GAO's testimony was based on a draft. As you know, the blueprint for U.S. policy towards the region has been the report of the National Bipartisan Commission on Central America (the Kissinger Report) submitted in January 1984. The initiative arising from the Kissinger Report established four main goals: economic stabilization, economic transformation to achieve sustained growth, spreading the benefits of economic growth, and democratization. The initiative called for $1.2 billion in U.S. aid to the region between fiscal years 1985 and 1989. This plan was later stretched out to seven years through FY 1992. Though substantial, U.S. aid to the region has fallen short of the levels originally conceived.

Given the realities of the Central American political, economic, and social situation, our efforts have made . significant progress. In the early 1980s Costa Rica was the only democratic country in Central America. Today there is only one country in Central America -- Nicaragua -- that is not a functioning democracy. To be sure, El Salvador, Guatemala and Honduras must be described as evolving democracies. Each is working to develop its democratic systems.

We should not, however, minimize the fact that these countries today all choose their leaders through regular elections, that respect for human rights has improved significantly, and that civilian institutions are increasingly influential. Similarly, because the democracies of Central America have chosen to enter the democratic community, they are much more likely to carry on regular economic relations with the democratic world, to receive aid, and to follow sound economic policies, all of which will help foster improved conditions in the region.

While significant progress has been achieved in the economic sphere, it has not always been as rapid as had been hoped. In addition to funding shortfalls in our planned aid program, economic recovery has been hampered by unfavorable internal and external conditions. Internally, armed conflict has not ended as envisioned by the Kissinger Report, and some governments have not implemented economic reforms as quickly as they might have. Externally, prices for key export commodities from the region have remained low, and inflows of other public and private capital have been substantially lower than projected in the Kissinger Report.

Despite these problems, clear success has been made in ending the downward economic spiral of the region and providing a stable climate for future progress. The sharply declining GNP, rising inflation, and massive fiscal imbalances evident in 1983 have been replaced by positive trends. Economic growth, though slower and more fragile than expected, is returning. Costa Rica and Guatemala have established a firm basis for sustained growth, though more remains to be done in El Salvador and Honduras. Non-traditional exports, supported by the Caribbean Basin Initiative, and improved economic policies encouraged by policy dialogue with the U.S., have been major factors in the improved growth prospects.

Some social progress has also been achieved. Reductions in infant mortality, increased access to family planning methods, improved primary school enrollments, and expanded availability of water and sewage services, are all indicative of efforts by governments of the region, with U.S. assistance, to spread the benefits of growth. This progress has occurred despite budgetary constraints and rapidly growing populations.

The progress that has been made in the region, particularly in the areas of democratization and export-led growth, offers solid evidence that our strategy is a sound one. If we persist in our efforts until internal and external conditions become more favorable, prospects for stable democratic government and long-term economic growth with equity in the region are excellent.

SOVIET AID TO NICARAGUA

SENATOR LEAHY: Do you agree that, in order to reduce the possible threat of the Sandinista military to the rest of the region and to support the regional peace plan, the United States should discuss with the Soviet Union the need for reducing its military aid to the Nicaraguan government? Is the United States conducting such discussions with the Soviet Union? If so, what have been the results to date?

SECRETARY BAKER: We have made clear to the Soviet Union that the continued high levels of military and economic assistance to Nicaragua and Cuba are stumbling blocks to resolving the problems of Central America We have embarked on a U.S. policy which supports fully the achievement of the goals of Esquipulas through a process of diplomacy. We are asking the Soviet Union to embark on a new policy themselves. The Soviet Union has an opportunity to demonstrate that its proclaimed commitment to "new thinking" is more than a tactical response to temporary setbacks, but is instead a new principled approach to foreign policy. The aid supplied to Nicaragua and Cuba provides these nations the wherewithal to aid continued violence and subversion against the democratically elected government of El Salvador as well as the other democracies in the region.

I met with Soviet Foreign Minister Shevardnadze in March in Vienna where I made clear or concerns. I plan to meet with Soviet leaders in May and, in the regional context, will note that the Soviet Union will be held accountable for those nations that are recipients of Soviet assistance military and economic, who use this against their neighbors. The Soviet Union has no legitimate security interest in Central America.

Although President Gorbachev claims the Soviet Union is "resolutely against any form of export of revolution or of counter-revolution. The actions of Cuba and Nicaragua belie this statement.

COSTA RICA DEBT

SENATOR LEAHY: What options exist for the United States to help Costa Rica deal with its serious commercial debt problem?

SECRETARY BAKER: Costa Rica has an external debt of more than $4 billion, among the world's highest per capita debt burden. Of this total, approximately $1.5 billion is commercial debt.

The Costa Ricans are promoting an innovative commercial debt proposal which includes debt buyback, exit bond, and rescheduling options. This proposal appears to be consistent with the approach outlined by Treasury Secretary Brady. Negotiations between Costa Rica and the commercial banks have lagged, largely over technical differences regarding the structure of the proposed buyback. While the Government of the United States cannot properly be an active partner in such negotiations, we are urging the Costa Rican authorities, the commercial banks, and the international financial institutions to work together and reach an agreement consistent with the Brady approach. We will continue to urge all parties to come to a fair and realistic settlement.

CENTRAL AMERICA

SENATOR LEAHY: GAO testified that, "While U.S. aid helped to improve living conditions of some Central Americans, broad-based development was not attained to the extent hoped for ..." How crucial is development to the attainment of regional stability in Central America? What needs to be done to strengthen U.S. efforts to promote broad-based development in the region? Can development be attained in a region suffering from economic instability and political violence?

SECRETARY BAKER: Broad-based development is crucial to the attainment of regional stability in Central America. This is why the Kissinger Commission and the Central America Initiative placed heavy emphasis on spreading the benefits of economic growth. Despite continued warfare in El Salvador and Guatemala, the large and growing number of displaced persons throughout the region, and budgetary constraints in still fragile economies, social progress in the four Central American democracies has been achieved.

With help from the U.S., the governments of the region have adopted better child survival strategies, improved access to primary education and improved the quality of instruction, and increased availability of housing and water and sewage services.

As a result of these efforts, infant mortality in the four countries has dropped from 65 per thousand live births in 1980-85 to 60 per thousand in 1987. The infant mortality rate is expected to drop further to 55 per thousand in 1990. Between 1983 and 1988, some half a million children were added to primary school enrollments in the region. Furthermore, from 1984 to 1986, access to water and sanitation services were extended to 420,000 and one million additional people respectively.

Of course, much remains to be done. Our efforts to spread the benefits of growth would be greatly facilitated by a reduction of armed conflict in the region. In addition, countries must achieve economic growth if they are to spread its benefits. It is our hope and intention that as U.S. aid helps the Central Americans achieve higher rates of growth, they will be able to allocate more resources to the neediest members of their societies.

TORTURE

SENATOR LEAHY: How will you oversee implementation of the Joint Concurrent Resolution Against Torture (PL98-447)? What instructions have you given to date to U.S. heads of missions with regard to this resolution? Implementation of PL98-447 has been uneven since it became law in 1984. What measures will you take to see it is more universally applied to US Ambassadors?

SECRETARY BAKER: This Administration will act to carry out the letter and spirit of the Joint Concurrent Resolution Against Torture. We are firmly committed to opposing the practice of torture wherever it occurs, and we will use a variety of means at our disposal, including traditional diplomacy and public affirmation of American interest, to respond to violations of the human body and spirit. As a concrete example of our commitment to pursuing allegations of torture, we recently sponsored a two-week visit by a delegation of mental health experts to the USSR to examine mental health patients and psychiatric abuse in mental hospitals where abuse occurred. As you know, the process established for the annual preparation of the Country Reports on Human Rights Practices to Congress serves as a focus and constant reminder for this very important work.

For the record, I would add that the Reagan Administration has an excellent record on this subject. It was that Administration which took an active part in the negotiation of the U.N. Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, signed it and submitted it to the Senate for its advice and consent. The Reagan Administration also gave vigorous support to the proposal to establish the Office of the U.N. Human Rights Commission Rapporteur on Torture and has worked with the Rapporteur since his appointment. Furthermore, the Reagan Administration left a solid record of action, repeatedly instructing all chiefs of missions in clear and precise language to be very diligent in encouraging all officers to be alert in reporting possible torture, recommending action to oppose torture in host countries, and working with non-governmental organizations.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

ANGOLA

SENATOR DECONCINI: As you know, I have been interested in the Angolan civil war for many years ad have often corresponded with the administration regarding this issue. With the signing of the Brazzaville Accord, a number of senators are concerned about matters involving verification, progress on national reconciliation, and continued assistance for UNITA. President Bush has made his position on aid to UNITA clear. He has publicly stated that UNITA will continue to receive all effective assistance until national reconciliation is achieved. For purposes of clarifying the record, does the administration mean that all effective aid will continue until fair and free elections occur, or until a national unity coalition government is formed?

SECRETARY BAKER: The administration's policy is to provide assistance to UNITA until national reconciliation as negotiated by the contending sides in the Angolan civil war is arrived at.

SENATOR DECONCINI: Mr. Secretary, there has been some confusion on the issue of Angolan membership in the IMF and the World Bank. It is my understanding that the Bush administration feels Angolan membership should not occur -- as well as diplomatic recognition -- until national reconciliation is achieved. Furthermore it is my understanding that the Administration and the State Department will do all it can to insure through all available means that Angola will not get the necessary support to join the IMF and World Bank until national reconciliation occurs. It this an accurate assessment if the situation?

SECRETARY BAKER: As you note, the Bush administration remains opposed to Angolan membership in the World Bank and the IMF for economic and political reasons, including the continued presence of Cuban forces in that country and massive Soviet military aid to the MPLA government. We will continue to make our position known at the relevant institutions.

SOVIET AID TO CENTRAL AMERICA AND ANGOLA

SENATOR DECONCINI: Mr. Secretary, as you know, the Soviets are anxious to acquire technology and untied loans from the United States, yet they continue to spend billions of dollars in Africa and Central America to undermine U.S. security interests. In your recent meetings with Soviet Foreign Minister Shevardnadze, did you discuss Soviet aid to Central America and to the MPLA in Angola, and if so, did you recommend the immediate cessation of such aid?

SECRETARY BAKER: Soviet assistance to Central America and to the MPLA in Angola have been long-standing priority topics between the U.S. and the USSR, and this will continue to be the case until our concerns are adequately addressed by Moscow. During my talks with Foreign Minister Shevardnadze in Vienna, I underscored the Administration's concern about Soviet assistance to Nicaragua and its effect on U.S.-Soviet relations. With regard to Angola, we have communicated our views regularly to senior Soviet officials, including at the highest levels, urging Moscow to use its substantial influence with the MPLA to promote national reconciliation in Angola. The Soviet Union understands that, given massive Soviet military assistance to the MPLA, and in the absence of national reconciliation, U.S. assistance to UNITA will continue.

PROLIFERATION OF CHEMICAL WEAPONS AND MISSILES

SENATOR DECONCINI: Mr. Secretary, on February 14, I sent you a letter expressing my concern over the proliferation of chemical weapons and missiles. In this letter I suggested the creation of a position within the State Department to monitor the proliferation of missiles as well as the potential export of chemical and biological weapons and items which may be used to produce them. Have you received this letter? Are you supportive of creating this position?

SECRETARY BAKER: I will vest that responsibility in the Undersecretary for Security Assistance, Science and Technology. Under him the action bureau will be the Bureau of Politico-Military Affairs. We are looking into what additional positions may need to be staffed for effectively handling these high prioirty issues.

SENATOR DECONCINI: Mr. Secretary, did you discuss the missile proliferation issue and Soviet membership in the Missile Technology Control Regime in your recent meetings with Foreign Minister Shevardnadze?

SECRETARY BAKER: At the Vienna meeting with Soviet Foreign Minister Shevardnadze, the U.S. called for intensified efforts to prevent the proliferation of ballistic missiles. Noting that U.S. and Soviet experts met twice in 1988, the U.S. suggested the sides compare assessments of the problem, rather than having only the U.S. present its views. It was agreed that this issue would be pursued at the May ministerial scheduled to be held in Moscow.

EL SALVADOR

SENATOR DECONCINI: Mr. Secretary, last year there was a close vote in the Appropriations Committee to decide whether or not to change our policy toward El Salvador. I expect this year's vote to be equally as close and contentious. I firmly believe we may have to reevaluate, reanalyze, and reformulate our policy in El Salvador. Could you please specifically enumerate or list for the committee what the administration's plans are in El Salvador as they relate to military assistance and human rights?

SECRETARY BAKER: As long as El Salvador must defend itself against the current levels of guerrilla attacks and urban terrorism, we can not anticipate when a reduction in the level of military assistance El Salvador will take place. Failure to provide adequate assistance will mean that the Salvadoran Armed Forces will be unable to meet logistical sustainment requirements, replace previous and anticipated combat losses of equipment, and upgrade other, obsolete equipment.

With respect to our human rights policy, the Administration has made it clear to President-elect Cristiani and to other Salvadoran political leaders that the United States is ready to work with the next government toward a mutually shared goal of greater respect for human rights. More specifically, we will press for progress in the prosecution of cases of human rights abuses, such as the San Sebastian incident in which an Army patrol is accused of executing 10 villagers. Judicial reform will also continue to be a major focus of our efforts, as a prerequisite for an improved human rights environment. As long as the judicial system is subject to corruption and intimidation and plagued by poorly trained personnel and inadequate resources, an equitable and efficient system of justice will not be available.

CLOSURE AND REALIGNMENT OF FOREIGN BASES

SENATOR DECONCINI: Mr. Secretary, I'm sure you are aware of the Base Closure and Realignment Act which will affect 145 installations within the United States. Some might argue that we should take a close look at closing or realigning our overseas bases prior to domestic installations. Are there any discussions between your office and the office of the Secretary of Defense to look at the possibility of closing or realigning overseas bases?

SECRETARY BAKER: Although the Departments of State and Defense consult routinely on our overseas basing posture, there are no formal discussions at this time concerning the closure or realignment of foreign bases. It should be pointed out, however, that the Department of Defense completed an overseas basing study in October 1988 which concluded that the present overseas basing structure is required to support U.S. forces abroad and current operational plans. The study also concluded that mechanisms exist in the regional unified commands to review regularly the efficiency and effectiveness of the base structure and that these reviews have resulted in numerous base realignments and closures.

I believe also that it would be premature, at this point, to discuss overseas base closures because of the ongoing Negotiation on Conventional Armed Forces in Europe (CFE). However, if the CFE talks progress satisfactorily -- as we hope they will -- we would certainly want to scrutinize carefully our forward-deployed basing structure as to how it relates to and serves our national security interests and strategy.

DRUG TRAFFICKING

SENATOR DECONCINI: Mr. Secretary, we have recently seen the administration, specifically Treasury Secretary Brady, propose a new twist on what was originally labelled the Baker plan dealing with third world debt. Very briefly, this proposal would link required economic reforms with debt relief or forgiveness. Do you believe there is any way that we could also emphasize a specific country's progress on drug eradication efforts to debt relief?

SECRETARY BAKER: Your idea could be a useful policy device but before it could be carried out in practice, we would need to address several technical, legal or policy problems. For example, there is no current legislation to permit the U.S. Government to forgive debt in return for drug eradication performance. The Administration will give further thought to your idea.

THE PRESIDENT'S TRIP TO CHINA

SENATOR DECONCINI: Does the administration intend to follow-up on President Bush's trip to China and the denial of that government to allow Mr. Fang, a human rights activist, to meet with members of the President's delegation?

SECRETARY BAKER: The President expressed his regret over the handling of the incident to Chinese officials before leaving Beijing. At the President's request, Ambassador Lord subsequently met with Vice Foreign Minister Zhu Qizhen to protest the Chinese decision to prevent Mr. Fang from attending the banquet. We will continue to express concerns about human rights in China, consistent with our global policy. We consider the banquet incident behind us, as do the Chinese, and are now looking forward in our relationship.

QUESTIONS SUBMITTED BY SENATOR FRANK LAUTENBERG

U.S.- PLO DIALOGUE

SENATOR LAUTENBERG: The U.S. began a dialogue with the PLO partly because it decided Arafat had renounced terrorism. Since then, Arafat has threatened Bethlehem Mayor Freij for seeking a truce in the intifada, and has refused to condemn or halt military raids into Israel by the PLO. None of these actions caused the U.S. to break off the dialogue.

What would it take for you to conclude Arafat has not really renounced terrorism?

SECRETARY BAKER: We examine each incident on a case by case basis. As former Secretary of State Shultz said in December, performance counts when it comes to determining whether the PLO adheres to its commitments to renounce terrorism. We will be watching this closely.

SENATOR LAUTENBERG: We've called on the PLO to refrain from attacks on Israeli targets if it wants to keep talking to us, yet Arafat said he wouldn't do so.

What would it take for you to favor the U.S. breaking off the dialogue?

SECRETARY BAKER: We have used the dialogue to stress that there can be no return to terrorism by the PLO anywhere. We have told the PLO that we will not be able to sustain a dialogue if PLO terrorism continues.

SENATOR LAUTENBERG: What test are you applying to determine if Arafat is living up to his word?

SECRETARY BAKER: We monitor PLO actions closely and evaluate all incidents on a case by case basis. A resumption of terrorism by elements under Arafat's control would be clear to all.

SENATOR LAUTENBERG: For instance, are we demanding that Arafat publicly disassociate the PLO from the two recently attempted raids on Israel?

SECRETARY BAKER: I have publicly stated that attacks of this nature are contrary to the peaceful objectives of our dialogue and to promoting a successful Palestinian-Israeli accommodation. We do not condone this type of activity, and have made this point directly to the PLO.

FY89 SUPPLEMENTAL REQUEST FOR REFUGEES

SENATOR LAUTENBERG: Mr. Secretary, yesterday, before the House Subcommittee on Foreign Operations, you stated the Administration would send up a supplemental request for 1989 for $100 million to process refugees. You also stated it was an add-on with offsets. What are the offsets?

SECRETARY BAKER: The Migration and Refugee Assistance (MRA) supplemental request is one part of a package of Administration supplemental requests. The discretionary portion of this supplemental package will be offset partially by transfers among appropriation accounts but principally by an across the board reduction of one-half of one percent in the outlays of several hundred lower priority domestic discretionary programs. These are the same programs contained in the residual program category of Building a Better America.

SENATOR LAUTENBERG: Would this money be specifically directed toward Soviet refugees or would it be spread around to meet all our refugee needs?

SECRETARY BAKER: The additional $100 million being sought for the Migration and Refugee Assistance (MRA) appropriation is for refugee admissions ($85 million) and refugee assistance ($15 million).

The $85 million for admissions is needed primarily to fund an additional 24,500 Soviet admissions processed in Rome and Moscow in FY89. It will also fund 4,000 admissions numbers transferred from other regions in order to raise the Soviet numbers in the December reallocation. These 4,000 admissions include: 1,000 East Asia/First Asylum, 2,500 East Asia Orderly Departure Program, and 500 Near East/South Asia.

The $15 million for assistance is needed to address new, high-priority requirements in East Asia and Africa. $3.5 million will be used for East Asia. $11.5 million will be used for Africa.

SENATOR LAUTENBERG: How many refugees do you estimate we could process with this extra money?

SECRETARY BAKER: The extra funds would enable us to fund the admission of 28,500 additional refugees worldwide, including 24,500 Soviets. The funds would also enable the U.S. Government to more adequately reimburse voluntary agencies for care and maintenance costs for Soviets in Vienna and Rome.

SENATOR LAUTENBERG: When can we expect this supplemental to come to the Hill?

SECRETARY BAKER: The supplemental was sent to the Congress on Friday, March 24. We hope that the high priority of the refugee supplemental is taken into consideration and that funds are available by May 1 so that no gap in refugee admissions takes place.

EMERGENCY CONSULTATIONS

SENATOR LAUTENBERG: Secretary Baker, in a February letter to you signed by more than half the Senate, we urged you to call for an emergency consultation so that the Administration and Congress could together [discuss] how to deal with the projected Soviet refugee flow in FY 1989. Do you favor holding such consultations with Congress?

SECRETARY BAKER: Yes, I favor holding emergency consultations. Raising the refugee ceiling established by the President last October is a crucial part of our strategy to deal with the increase in Soviet emigration, and consultations between the executive branch and Congress are necessary before the ceiling can be raised.

SENATOR LAUTENBERG: Do you know of any plans to hold such consultations, and if so, when?

SECRETARY BAKER: The consultations process is proceeding rapidly. We have already met with representatives of all the executive branch agencies who are concerned with refugee issues and explained the need for additional FY89 admissions numbers. We have also met and discussed this need with the voluntary agencies who assist refugees, and with representatives of state and local governments. There is general agreement that the refugee ceiling needs to be raised.

A recommendation that the President authorize consultations with Congress will reach his desk shortly. If the President concurs with this recommendation -- and the White House announced on March 15 that he was prepared to do so -- we will immediately contact the appropriate Congressional committees.

SOVIET REFUGEE DETERMINATIONS

SENATOR LAUTENBERG: More than half the Senate has called on the Administration to reverse its departure from its longstanding practice of considering all Soviet Jews as refugees. Secretary Baker, although the INS has primary responsibility for reviewing refugee applications, there is a strong foreign policy dimension to this issue.

What is your position on the Administration's departure from its longstanding practice of considering all Soviet Jews as refugees?

SECRETARY BAKER: We are very much aware of the concerns expressed by members of both houses of Congress on this subject, and we will study them in the context of the development of our overall policy on refugee and immigration matters, including our response to the significant increase in Soviet emigration. Because the Justice Department has statutory responsibility for adjudicating applications for refugee status, I will defer to that Department to respond further to the question.

REFUGEE NUMBERS FOR SOVIETS

SENATOR LAUTENBERG: It's my understanding that available refugee numbers for Soviet refugees may run out within the next several weeks.

What does the Administration plan to do to remedy this situation?

SECRETARY BAKER: We have already allocated to overseas processing posts all fully-funded admissions numbers for Soviet refugees processed in Western Europe for FY89. Numbers for refugees processed in Rome and Vienna are likely to run out by the end of April. The numbers allocated for use in Moscow will last somewhat longer.

In addition, on December 15 the Department announced the intention to utilize for Soviet refugees all of the 6,000 semi-funded numbers established by the President after consultation with Congress for F89. This program requires private sector funding of certain overseas costs as well as transportation and initial resettlement in the U.S. Unfortunately, the private sector has not yet taken advantage of this opportunity to support the Soviet refugee program.

In view of the significant increase in Soviet applications for U.S. refugee admission, the Administration has submitted a supplemental appropriation request for this fiscal year and is planning to hold emergency consultations with Congress, under provisions of the Refugee Act of 1980, to increase the admissions ceiling.

QUESTIONS ON KIEV CONSULATE

SENATOR LAUTENBERG: What is the status of the Kiev consulate, and what are the roadblocks that need to be resolved before it's established?

SECRETARY BAKER: We are working on a plan to open a small consulate in Kiev with a staff of fewer than ten, which would not keep classified information. We favor this approach because we believe a post of this sort can be quickly and inexpensively established and can report effectively, using a combination of modern communication technology and trips to Moscow and outside the U.S.S.R.

There are two issues to be resolved before this plan can be implemented: reconciling legislation on this subject with our concept of a small, unclassified operation in Kiev; and reaching an agreement with the Soviets on facilities for the Kiev and New York consulates on the basis of reciprocity.

Section 153(b) of the Foreign Relations Authorization Act for Fiscal Years 1988 and 1989 stipulates that the Soviets not be allowed to occupy any new consulate in the U.S. until the U.S. mission in Kiev is able to occupy "secure permanent facilities." The State Department is proposing legislation to modify this provision to permit our proposed plan of action for Kiev.

The Soviets have planned on a large consulate in New York and own two adjacent buildings that they are eager to begin using. Since the opening of consulates in Kiev and New York must proceed on a basis of reciprocity, however, we would insist that the Soviets limit themselves to the same staff size that we have in Kiev. Our new concept foresees a staff of under ten persons. Since the large office building in Kiev we originally planned to use as a consulate does not suit our present plan for a compact, unclassified post, we have suggested that both sides operate, at least initially, out of leased facilities.

SENATOR LAUTENBERG: When do you expect the negotiations with the Soviets on this issue to be resolved?

SECRETARY BAKER: I cannot say when these negotiations will be concluded. We have been discussing this subject with the Soviets and both sides want to open the new consulates. However, we cannot make serious progress in our talks with the Soviets on the type of facilities that will be opened until the legislative issue is cleared up.

SENATOR LAUTENBERG: Many of us in Congress would like to see the Kiev consulate set up as soon as possible. What can we do to move this process along?

SECRETARY BAKER: The State Department is proposing legislation to modify Section 153(b) of the Foreign Relations Authorization Act for Fiscal Years 1988 and 1989 to permit our proposed plan of action for Kiev. I would ask that members of Congress give careful consideration to this provision, Section 131 of our draft authorization bill (attached).

Draft Authorization Bill

SEC. 131. UNITED STATES - SOVIET RECIPROCITY IN MATTERS RELATING TO EMBASSIES

Section 153(b) of Foreign Relations Authorization Act, Fiscal Years 1988 and 1989 (Public Law 100-204) is amended by striking "until the United States mission in Kiev is able to occupy secure permanent facilities" at the end and inserting in its place "except on the basis of reciprocity as to the establishment by the United States of a consulate in Kiev".

Sectional Analysis

SECTION 131. UNITED STATES - SOVIET RECIPROCITY IN MATTERS RELATING TO EMBASSIES

This section amends section 153(b) of the Foreign Relations Authorization Act, Fiscal Years 1988 and 1989 by deleting the requirement for "secure permanent facilities" in Kiev before allowing the Soviet Union to open any new consulate in the U.S. and requiring instead that the two consulates should be treated on the basis of reciprocity. This will allow the United States to determine the type of facility that will best serve its interests in Kiev while maintaining the requirement for reciprocal treatment for any new Soviet consulate in the United States.

SALE OF BOEINGS TO ROMANIA

SENATOR LAUTENBERG: I understand the Commerce Department has recently given approval for the sale of 3 long-range 767 aircraft to Romania. Romania will buy these planes under a complex barter arrangement. How many other countries have been granted permission to buy military equipment under a barter arrangement?

SECRETARY BAKER: From mid-1987 until April 1989, the Boeing Commercial Aircraft Company was involved in negotiations with the Romanian national airline, TAROM, and the Government of Romania for the sale of three Boeing 767-200ERs. This is a non-military aircraft. There was no U.S. Government involvement in sales negotiations or the financial arrangements.

Because of complications involving delivery dates and the timing and method of payment, the deal was subsequently cancelled. It is our understanding that no sale was consumated and that no further negotiations are contemplated.

SENATOR LAUTENBERG: What criteria did Commerce use in approving Romania's purchase? What factors did it take into account?

SECRETARY BAKER: Extensive inter-agency consultations were held between mid-1986 and July 1987 on the issue of whether or not to allow the sale of commercial passenger aircraft to Hungary, Poland, and Romania. On July 2, 1987, at a Cabinet level Export Administration Review Board meeting, it was decided to allow the sale of commercial passenger aircraft by U.S. firms to Hungary, Poland, and Romania, provided that an adequate safeguards regime could be designed. Such a safeguards regime was prepared by officials of the Departments of Commerce, Defense, and State. A copy is provided herewith for your information.

These safeguards are part of the license granted to the vendor by the Department of Commerce. This same safeguards regime is incorporated in similar licenses granted to vendors in all COCOM member nations; thus, any major commercial aircraft manufacturer negotiating with potential purchasers in Hungary, Poland, and Romania would be under similar constraints.

CONDITIONS FOR SALE OF CIVIL PASSENGER AIRCRAFT TO EASTERN EUROPEAN COUNTRIES

A. ENGINES

1. Engine repair will not be provided under this license. Engine breakdown and/or module disassembly will not be accomplished within proscribed countries nor in the presence of a proscribed country national.

2. Removal of an engine, and replacement with a spare is permitted under the direct supervision of an airframe/engine manufacturer's employee or agent 1/. Line maintenance on engines is permitted. Replacement of the following items, when required, will be done on a one-for-one basis:

> Gearbox, Controls, PMC, Ignitor Boxes, Fuel Nozzles, Ignitors, Fan Blades, Variable Stator Actuator and Feedback Cable, Clearance Control Valve, and Associated Electrical Harness and Piping.

No disassembly or repair of the above components in proscribed countries will be permitted.

3. Spare engines will be located at an engine manufacturer's depot in Western Europe or a secure warehouse in a proscribed

1/ An agent of the airframe/engine manufacturer, or any other vendor supplying parts, technical information, or other service to the aircraft or to the airline(s) of a proscribed country, must be a COCOM national.

country. When a replacement is required, an airframe/engine manufacturer's employee or agent will accompany the spare engine from its storage location to the place where the engine exchange is to be made. The airframe/engine manufacturer's employee or agent will witness the installation of the spare engine into the aircraft. He will then accompany the removed engine back to a Western European depot or maintenance shop. No engine disassembly will be permitted in a proscribed country. Maintenance and operator manuals, training, tooling drawings and tooling provided to the airline will be edited to conform with this restriction.

4. All manuals, training and tooling provided by the manufacturer will be consistent with the above. The export of engine technical data will be restricted to the minimum required for operation, maintenance and allowable repair. Major engine overhaul technical data or training will not be provided under this license.

B. INERTIAL REFERENCE UNIT (IRU)/FULL AUTHORITY DIGITAL ELECTRONIC ENGINE CONTROL (FADEC)

1. All repair of ring laser gyros (IRU) and FADECs will be performed outside of the proscribed countries by the manufacturer at one of the manufacturer's depots licensed for such work.

2. All IRU and FADEC spares will be stocked outside proscribed countries under control of the manufacturer at one of the manufacturer's depots or in a secure warehouse in a proscribed country. If IRU or FADEC spares are stored in a proscribed country, they will be controlled in accordance with the conditions specified in paragraph C.1.c., below. In addition, each IRU and FADEC will be stocked and identified by serial number and segregated by airline. When an IRU or FADEC spare is required within a proscribed country, it will be delivered and exchanged by an employee or agent of the airframe or IRU or FADEC manufacturer. The IRU or FADEC that was removed from the aircraft will remain in the custody of the agent and will be returned to the manfacturer-controlled storage depot.

3. When an IRU or FADEC spare is required outside a proscribed country, the exchange can be made by a COCOM national who will maintain the manufacturer's handling procedures and strict serial number accountability.

C. SPARE PARTS

1. Spare systems or modules defined as general exception items may be provided to the airline subject to the following controls:

   a. The airframe manufacturer, its sub-contractors, and respective vendors, will supply the airline with an initial stock of spare parts in accordance with the airframe manufacturer's Prepared Logistics Plan.

   b. A secure warehouse facility will be created within the airline's operations base area in which all general exception items will be stored; no other storage facility will be used for such designated parts.

c. The secure warehouse will be operated by a COCOM national, selected by the airframe manufacturer and approved by the USG or appropriate COCOM government, who will:

i) control access to the spare parts storage area;
ii) using the airframe manufacturer's logistics plan, establish an inventory control system for all controlled spares;
iii) issue replacement parts on a one-for-one basis, receive the damaged/worn part, and arrange for its return to the appropriate vendor;
iv) prepare an inventory on a quarterly basis showing all activity in the secure storage area and submit that inventory to the airframe manufacturer and appropriate COCOM government agency;
v) report immediately to the appropriate COCOM government agency any evidence of tampering with spare parts both within the secure warehouse facility and with any returned controlled spares.

d. All general exception spare parts ordered by or on behalf of the airline will be delivered to the consignee via the secure warehouse. Replacement parts will be entered on the inventory by the supervisory COCOM national, and supplied to the airline using the system outlined above.

e. Spare systems or modules defined under advisory notes may be provided to the airline in accordance with the airframe manufacturer's Prepared Logistics Plan. On a quarterly basis, the consignee will confirm to the appropriate COCOM government agency that this spare inventory exists and that individual modules have not been tampered with.

2. Software for aircraft systems, if applicable, will not be accessible. No reprogramming capability is to be provided for these systems except that which is normally done by the operator to change modes or update operational data bases (i.e., for flight management systems this would be updating the navigational data).

3. There will be no export of computer boards, integrated circuits or microprocessors as replacement parts for these systems and modules. Such exports must be subject to separate license requests.

4. Software/firmware maintenance and modification for the systems and modules controlled by general exceptions rules will be accomplished by the airframe manufacturer or instrument vendor only. No source listing or source code documentation will be provided.

5. Scheduled periodic maintenance actions by proscribed country nationals involving these controlled systems will be limited to removal and replacement of the system or module as identified in the airframe manufacturer's logistics plan.

6. All manuals, training and tooling provided by the manufacturer will be consistent with the above.

7. At the end of two years of operation, these conditions will be reviewed by the appropriate COCOM government authority.

D. CONTROLS

1. Airlines in the proscribed countries must allow free access to the manufacturer's representatives in order to monitor compliance with the above restrictions. If access is not provided, or if spare parts inventories cannot be accounted for, or if tampering with any controlled systems or spare parts is identified, then the responsible COCOM government agency may suspend all servicing of the aircraft until resolution of the matter.

E. AIRLINE ORDERS FOR SPARE PARTS

1. Airline orders for spare parts noted in paragraphs A, B, and C, above, will be screened by the manufacturer against the airframe manufacturer's Prepared Logistics Plan to determine that the quantities requested are allowable.

F. COMPOSITES

1. All manufacturing and repair information for COCOM controlled composite type material must be removed from all delivered customer support documentation. Composite repairs, if required, shall be performed by an employee or agent of the airframe manufacturer.

G. TRAINING

1. Cockpit crew simulator training will be performed outside proscribed countries. Maintenance training beyond flight line and periodic maintenance will require separate approval.

2. Any maintenance courses given to proscribed country nationals will limit content on controlled systems and composite structures as specifically noted above.

3. If proscribed country airline employees obtain training from the airframe manufacturer or its subcontractors, such employees will be restricted in their access to only that information authorized by the particular training and this document. Access to airframe manufacturer, sub-contractor, and vendor facilities will be controlled on a strict "need to know" basis; access to areas of any facility engaged in defense activities will be denied. The airframe manufacturer shall seek to insure that the security conditions set forth by these conditions are known by the sub-contractors and vendors.

H. DOCUMENTATION

1. With the exception of the specific prohibitions covered above, standard operational technical data will be permitted to allow safe airline operations.

I. TECHNICAL DATA CONTAINED IN SERVICE BULLETINS

1. Technical data contained in service bulletins shall be screened by the airframe manufacturer and/or vendor or sub-contractor, as appropriate, to ensure that no data prohibited by this license or COCOM regulations is provided in the bulletin releases.

SENATOR LAUTENBERG: Did the State Department play any role or have any input into the decision to approve this sale?

SECRETARY BAKER: Yes. The European, Economic and Business Affairs, and Political/Military Affairs Bureaus took a very careful look at this proposal from the national security, economic, and political viewpoints. They determined that, on balance, and with proper safeguards, allowing the sale of commercial passenger aircraft to Hungary, Poland, and Romania is in the national interest. State officers were important participants in the design and implementation of the safeguards regime which was one of the conditions to the sale of this type of aircraft to East European nations.

CYPRUS

SENATOR LAUTENBERG: Can you give me a current status report on our efforts to resolve the conflict in Cyprus?

SECRETARY BAKER: The United States has a profound interest in assisting the people of Cyprus in the search for a permanent and just settlement of this long-standing conflict. We have a role to play in that search, although a final resolution can come only through direct negotiations by the parties themselves.

In this regard, a hopeful process is under way under the auspices of the United Nations Secretary General. The leaders of the two sides have held numerous meetings in Cyprus and New York since the process began in Geneva last August. They will be meeting with the Secretary General again in early April to review progress in the talks. The two leaders have established a good working relationship and presented written proposals which contain constructive elements. The basis exists for the parties to the conflict to engage in serious negotiation.

In pursuit of a Cyprus settlement, we have maintained very close contact with the office of the Secretary General and with his special representative in Cyprus. We have excellent relations with both Cypriot parties and have an ongoing dialogue with the governments of Greece and Turkey. The President met with Prime Minister Ozal in Tokyo and I have met with the Prime Ministers and Foreign Ministers of Greece and Turkey as well as the Foreign Minister of Cyprus.

We maintain close contact with other European allies on the Cyprus question. Further, the Special Cyprus coordinator has travelled frequently to the region, most recently from March 23 to April 4. His efforts have my full support and confidence and I am pleased that he has maintained regular contact with the Congress either directly or through staff members.

SENATOR LAUTENBERG: Do you support providing $15 million in Economic Support funds for Cyprus?

SECRETARY BAKER: Our assistance proposal this year asks for $7 million in Economic Support Funds. Over the years, Congress has maintained the level at $15 million. I would like to emphasize that the lower request this year does not reflect any intent to diminish the political commitment of the United States to assisting a Cyprus settlement. Rather, it corresponds to the shrinking resource base in recent years and brings our Cyprus program into line with this regrettable but real overall downward trend. It is questionable that we can afford to sustain the relatively high level for Cyprus set some years ago in today's different circumstances. Past efforts to assist the Cypriot people emphasized humanitarian assistance in the wake of the massive disruption of 1974, the revival of the economy, construction of housing and hospitals, restoration of cultural/historical sites, and many other worthwhile projects. We have reached a point, however, where such assistance is no longer sorely needed.

TURKEY

SENATOR LAUTENBERG: Are you aware that according to an article in the Turkish newspaper "Hurriyet", Turkey is currently spending roughly $160 million for infrastructure projects in the occupied area of northern Cyprus, and that among the projects is the construction of a $75 million power plant? Do you believe that the provision of $60 million in U.S. economic assistance to Turkey as recommended by this year's budget is wise when it allows Turkey to spend $160 million to strengthen its foothold in the occupied area of Cyprus?

SECRETARY BAKER: Turkish aid to the Turkish Cypriot community is unquestionably a significant factor, comprising roughly one-third of that community's budget in 1988. The power plant project is tentatively planned to commence in mid 1989. The exact cost of the project is not known and it is not certain whether the equipment used will be new or will consist of recycled older equipment from Turkey.

Our FY 1990 budget request of $60 million in U.S. aid for Turkey will support Turkey's fiscal reform measures. Success of these reforms is important as Turkey reinforces its economic and political institutions, so important to the success of Turkish democracy. The funds are used for balance of payment support and may be used for imports of goods and services from the U.S. and payment of non-military debt owed to the U.S. and international lending institutions.

We do not believe that our money importantly influences Turkish attitudes toward Cyprus. Like the other parties most directly involved in the Cyprus issue, Turkey has repeatedly shown that it believes that vital interests are involved there, and that these must be taken into account in any negotiated settlement. Our assistance to Turkey, while in the interest of both Turkey and the U.S., is not as important to Turkey as this perception. Thus, we believe that the only hope for a just and lasting settlement of the Cyprus problem is to support strongly the initiatives of the UN Secretary General. His approach has been to deal with all factors which make up the dispute in an overall process of negotiation which takes into account the concerns and interest of all parties.

INTERNATIONAL FUND FOR IRELAND

SENATOR LAUTENBERG: Last year, I authored report language in the Foreign Operations Appropriations Bill that required the Board of the International Fund for Ireland to give great weight to the creation of permanent, full time jobs in areas of high unemployment in allocating the International Fund monies. What is your analysis of how well the Fund has done in implementing that language? Please be specific. A report from the Chairman of the Board of the International Fund for Ireland presented the Fund's second annual report, which stated that the 858 projects supported to date are estimated to create around 4,500 permanent full time jobs and underpin employment for 1,500 people in rural areas. Even assuming the 1,500 job estimate, that means that only 6,000 jobs have been created for 858 projects, or less than 7 jobs per project. From that figure, it does not appear that the Fund gave great weight to the creation of permanent jobs in allocating its funds. Do you agree with that assessment, and if not, why not? Some of my constituents have raised questions about some grants made by the Board. In that connection, I would like to know how many full time permanent jobs each of these grants created.

--15,000 pounds sterling to Allied Irish Banks for external decoration of premises in Strabane.

--54,000 pounds to convert the Old Bushmills Distillery in Coleraine into apartments and a wine bar.

--Conversion of a Baptist Church in Lurgan into a restaurant.

--$85,000 for a skydiving school in Coleraine.

--$30,000 for a sailing school in Carrickfergus.

SECRETARY BAKER: We believe that the International Fund for Ireland (IFI) Board of Directors has taken seriously its charge to carry out the intent of U.S. legislation and the mandate of the Fund to create permanent full time jobs. Job creation is an important factor in reaching funding decisions, as are resource mobilization, private sector involvement, and reconciliation. The Fund has established its policies and procedures in accordance with the wishes of the donors and the governments of Ireland and the United Kingdom. Over its two-year operating span, the Fund's Board has revised its procedures in the face of changing situations, constructive criticism, and a more focused concentration on the most disadvantaged areas. We have continued to emphasize during our discussions with the IFI the importance we and Congress place on job creation.

In September 1988, the Board gave increased attention to employment by designing new initiatives to focus more specifically on the most disadvantaged areas i.e., those having an above average rate of unemployment, and to a lesser extent, other measures of deprivation. By this measure, some 35 percent of the wards in Northern Ireland are considered disadvantaged. These initiatives are being carried out under existing programs as well as through a new Community Economic Regeneration Scheme and through an allocation for special projects. The Board has also established an experimental project in community relations, both cross-border and cross-community.

The Fund recently hired four development officers to help people in these disadvantaged areas submit appropriate proposals which would stimulate employment and economic development in the most disadvantaged areas.

With respect to some of the specific projects mentioned, the following information should help put these funding decisions in proper perspective.

The urban development program, one of the focus sectors, is designed to upgrade town centers to further encourage commerce and investment. All grants are carefully scrutinized according to economic viability, private sector investment, job creation, contribution to upgrading the centers and ability to leverage private capital. The specific bank grant to which you refer might have fallen under this program but, in fact, was not made. However, IFI resources were used by the Town Councils to facilitate the improvement of facilities which were dilapidated buildings.

The IFI commitment of $6.5 million to this program sector has leveraged further investment of $15.5 million.

Tourism, another program area, is an industry of great growth potential (5 percent annual growth rate). It is one of the very few activities where investment can be made in some parts of Ireland. Again, the objective is to increase economic activity in the region, leverage private resources and create jobs by attracting an increased number of tourists. Hotel improvements are included in this category. Tourism already sustains 6 percent of the total work force, and is the third biggest earner of foreign revenue after meat exports and office machinery. Tourism also permits interaction between communities in leisure activities. We believe that the Fund continues to give great weight to the creation of permanent jobs while fulfilling its charter to distribute funds on a value-for-money basis. The IFI is striving to create permanent full time employment, and, as you noted, 4500 permanent new jobs were created as of December 1988. The IFI has also created 4,000 construction jobs and 2,183 indirect (peripheral jobs which will arise as a result of the projects). Based upon information compiled from approved project data projections, the Board estimates 65 percent of this employment is located in the areas of highest unemployment.

A.I.D. does not maintain project specific information for the International Fund activities. We have, therefore, requested the IFI Board to provide the specific job creation information which you have requested. We will transmit this information to you as soon as we receive it.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONTRA AID

SENATOR HARKIN: Yesterday's papers reported that the Bush Administration told the Contra leadership that it will ask Congress for more than $40 million in non-lethal aid over the next year. Mr. Secretary, I am aware of the consultation process you have initiated with the House and Senate Democratic leadership. However, I have several questions regarding how the aid will be administered and whether it will be distributed in a manner consistent with the intentions of the Central Americans.

Under the peace agreement adopted last month in San Salvador, the five Central American presidents have until May 16 to come up with a plan for "the voluntary demobilization, repatriation or relocation" of Contras now living in Honduras. Questions such as how the relocation will take place and over what period of time have not been determined and we must wait until May to find out.

I am also aware, and I am taking this from yesterday's Washington Post, that Contra leader Adolfo Calero hopes that continued aid -- until next February -- will be used to keep the resistance "together as a viable force" until the proposed election.

Before I sign off on any plan for continued aid to the contras, I want to make sure for what purpose that aid will used. Will it be used to keep the contras together as a unit until next March, so that they possibly could be revived as a fighting force with resumption of US military aid next year?

Or, are they being provided humanitarian aid until the Central Americans come up with a proposal and begin implementing a plan to relocate and reintegrate the contras and their families back into Nicaragua?

SECRETARY BAKER: The key here, we believe, is the wording in the San Salvador communique calling for voluntary demobilization, repatriation, or relocation. As "Voluntary" is the key word, we do not have here an either/or proposition. It is our hope that the Sandinistas will implement democratic reforms which will convince Contra fighters and their families that they can go home and live under a system of political and economic freedoms. We are not planning on a failure of the peace process; at this point we should not speculate on what policies we, the Resistance, or the Central Americans might adopt if the Sandinistas do not meet our collective expectations.

CENTRAL AMERICA

SENATOR HARKIN: Mr. Secretary, have you consulted with the Central Americans, other than the Hondurans and the contras, to determine their response to a year-long extension of contra aid? When President Cerezo of Guatemala visited Washington several weeks ago, did either you or the President meet with him to discuss this proposal? Have you called President Arias of Costa Rica?

SECRETARY BAKER: We have consulted with all the democratic nations in Central America concerning the repatriation, reintegration or relocation of the Resistance forces. Our Ambassadors, Department principals and I myself have been involved in such consultations. President Bush and I met April 4 with President Arias, who has supported our extension of humanitarian aid. President Bush also conferred with Venezuelan President Carlos Andres Perez on the linked issues of Nicaraguan democratization and the reintegration of the Resistance unto Nicaragua. President Bush and I both met with President Cerezo during his recent Washington visit to discuss the situation in Central America and exchange views on how to proceed in the region. Under the El Salvador Accord insurgent forces are to voluntarily reintegrate into their homeland under safe, democratic conditions. As expressed in these accords the reintegration plan is to be developed pursuant to the Esquipulas and El Salvador agreements. The proposed extended humanitarian assistance to the Resistance through February 1990 will permit adequate time to determine Sandinista sincerity in complying with its democratic commitments made under Esquipulas and the more recent accord signed at Tesoro Beach, El Salvador. Resistance forces should have the right to return to their homeland under safe, democratic conditions with full civil and political rights.

SENATOR HARKIN: Yesterday's Post reports that the United Nations has drafted plans for a 160 - man Central American peace-keeping force to monitor a halt in foreign aid to rebels and ensure countries do not harbor guerrillas fighting neighboring governments. How do you envision the United States, in the next year, working with the UN in monitoring compliance with the Central American peace-keeping plan. Do you agree with the conclusions of the Post piece which states that the Bush administration's plan to provide Humanitarian aid to the contras "could put the United States and (the UN) on a collision course"? How do you intend to avoid this collision?

SECRETARY BAKER: The UN monitoring effort will concentrate on detecting the movement of men and supplies by air, sea or land in violation of the Esquipulas Accords.

This activity is complementary to other efforts to verify compliance with both the democratic and security requirements of the Esquipulas and Tesoro agreements.

No, I do not believe that providing humanitarian aid to the Resistance and the operation of a UN border verification unit would in any way be conflictive. The Tesoro accord provides for humanitarian assistance to be given. The Resistance has maintained a cease fire, and is standing down while awaiting the outcome of the full implementation of the peace accords. The insurgents in El Salvador, however, remain active and are still being supplied militarily from external sources. We support UN efforts to engage the insurgent forces in observing ceasefires in their areas of operation, and in cooperating with the UN observers.

Our goal is to have the Resistance and the FMLN engage fully, in accord with the provisions of Esquipulas II, in the political processes of their countries.

SENATOR HARKIN: How, Mr. Secretary, do you define "consistency" with any future Central American agreement to demobilize and relocate the contras?

SECRETARY BAKER: The reintegration demobilization and relocation of the Resistance is entirely consistent with full adherence to the provisions of the Esquipulas and Tesoro agreements. These agreements contain provisions for the institution of democratic processes and pluralistic political systems into which opposition groups such as the Resistance can be reintegrated and can fully participate under conditions of safety and full political participation. The United States will work in good faith to support the establishment and maintenance of free, open political processes in which all groups can fairly and safely compete for political leadership. We also hope that direct negotiations between the Resistance and the Nicaraguan government will be initiated with the support of the Central American presidents as well as President Carlos Andres Perez of Venezuela.

ARENA

SENATOR HARKIN: Mr. Secretary, this Sunday Salvadoran voters will go to the polls to elect their next President who will take office on June 1. The polls I've seen indicate that ARENA, the party founded by Major Roberto D'Aubuisson, stands a good chance of winning in the first round, or at least amassing a significant lead to carry the party over in the run-off a month later.

Although I realize that Georgetown-educated Alfredo Cristiani will be the ARENA standard-bearer in this Sunday's election -- I've met him and I believe he is an honest and admirable man -- he will be haunted by the presence of Roberto D'Aubuisson, the ARENA party founder.

As this New York Times piece indicates, showing Mr. D'Aubuisson and Mr. Cristiani sharing the same platform, Roberto D'Aubuisson remains an important power within ARENA.

Is it true that the USG believed that D'Aubuisson was behind a 1983 assassination plot against then Ambassador Thomas Pickering?

SECRETARY BAKER: Our Embassy in San Salvador had unconfirmed reports that Roberto D'Aubuisson was involved in plotting against Ambassador Pickering but was unable to verify this information.

SENATOR HARKIN: Is this the same Roberto D'Aubuisson who in the past has been ruled ineligible for a visa on the basis of his advocacy of violence?

SECRETARY BAKER: Yes, it is. Mr. D'Aubuisson has in the past been found ineligible for a visa under Section 212 (a)(28)(f) of the Immigration and Nationality Act which prohibits visa issuance to persons who personally advocate violence. The Department has on several occasions sought waivers of Mr. D'Aubuisson's ineligibility to allow him to enter the United States, as we have done for members of the guerrilla-allied Democratic Revolutionary Front, such as Guillermo Ungo, who are similarly ineligible.

SENATOR HARKIN: Is there reasonable suspicion that Major D'Aubuisson was involved in the 1980 assassination of Archbishop Romero?

SECRETARY BAKER: Testimony to the Salvadoran court in November 1987 by the driver of the car used in the assassination implicated Mr. D'Aubuisson in the planning of this crime. However, in December 1988 the Salvadoran Supreme Court, for what we believe to be political motives, rejected the driver's testimony and blocked the extradition from the United States of an alleged co-conspirator.

SENATOR HARKIN: Mr. Secretary, is it your understanding that Mr. D'Aubuisson continues to exercise considerable control within ARENA?

SECRETARY BAKER: Mr. D'Aubuisson is the recognized leader of one of the factions within ARENA and is active in the leadership of the Legislative Assembly. At the same time, however, he supported President-elect Cristiani as ARENA's candidate. Mr. Cristiani has stated that Mr. D'Aubuisson will not be appointed to his cabinet.

SENATOR HARKIN: Does the prospect of facing a Salvadoran government where ARENA has control of the executive, legislative, and judicial branches cause you and the Administration some concern?

SECRETARY BAKER: We do not believe it appropriate to pre-judge or otherwise comment on the expected performance of Mr. Cristiani's administration before he has even assumed office. However, representatives of the Bush administration as well as members of Congress have expressed directly to Mr. Cristiani and other ARENA leaders the U.S. government's concern that El Salvador continue its progress in consolidating democracy and improving the observance of human rights. We believe that our position is clearly understood in El Salvador.

SENATOR HARKIN: Are you prepared to institute any changes in U.S. policy if ARENA takes control over the executive in El Salvador?

SECRETARY BAKER: As Vice President Quayle stated during his February visit to El Salvador, this Administration is prepared to reassess continued assistance and support to El Salvador if the new government does not demonstrate a commitment to the goals of U.S. policy in that country.

ARMY COLONELS STUDY

SENATOR HARKIN: Mr. Secretary, are you aware of the March 22, 1988 study of the 4 U.S. Army lieutenant colonels, entitled "American Military Policy in Small Wars: The Case of El Salvador"? Are you aware of some of the conclusions of that report -- namely that the Salvadoran government has failed in the more important task of addressing the "root causes" of the insurgency and that "the war in El Salvador is stuck" and "unhappily, the United States finds itself stuck with the war"?

What is your response to that report, and can you provide us some concrete evidence refuting the conclusions of the colonels' report?

SECRETARY BAKER: Yes, we have read the report and view it as useful in raising some key questions related to our military support to the Salvadoran government in its efforts to win the war against subversion. As the authors themselves state, the report was not meant to be a comprehensive analysis of U.S. policy in El Salvador. We do not share some of the study's fundamental conclusions, including the assessment that the war in El Salvador is "stuck". Guerrilla combatant strength has declined from a 1983 estimated high of 12,000-13,000 to a current estimate of 6,000-7,000. Unable to successfully confront the Salvadoran army in the field, the insurgents have switched to a strategy of urban terrorism directed against unarmed civilians, assassination of elected officials, and easily-mounted attacks against soft economic targets. There is no better indication of guerrilla weakness than their unsuccessful campaign of intimidation and killing to prevent the Salvadoran people from voting.

U.S. POLICY OBJECTIVES

SENATOR HARKIN: Mr. Secretary, could you please describe for our subcommittee what current U.S. policy in El Salvador is? What are the objectives of U.S. policy?

SECRETARY BAKER: El Salvador, threatened by a Marxist-led insurgency for nine years, has received substantial economic and military assistance from the United States directed at strengthening the democratic political process, improving the observance of human rights, promoting equitable economic development, and assisting the democratically-elected government of El Salvador in defending itself from the guerrillas of the Farabundo Marti National Liberation Front. We intend to continue the pursuit of these shared objectives with the next government of El Salvador.

SENATOR HARKIN: How long do you envision the Congress approving aid, and at what levels?

SECRETARY BAKER: Our policy in El Salvador has had considerable bipartisan support in Congress as we have sought to support the democratic center against the extremes of the left and the right in that country. We expect such support to continue provided that the Salvadoran government persists in making demonstrable progress in the areas of greatest concern to the United States. El Salvador, faced with a continuing insurgency that attacks the economic infrastructure as a primary target, will no doubt require assistance at the same general current levels for sometime to come. Key to U.S. aid levels, however, will be the success of our current policy supported by both Houses of Congress to bring the Nicaraguan government into compliance with its pledges to end its support for subversion and to bring about a genuine diplomatic opening in that country. If Nicaraguan and Cuban support to the FMLN is eliminated, we could envision reductions in military assistance to El Salvador.

DIALOGUE

SENATOR HARKIN: Whatever we may think of the motives behind the FMLN when they announced their elections proposal on January 23, that proposal did begin a process of dialogue and discussion that I believe all would agree signalled a positive development in the overall political scene in El Salvador. Mr. Secretary, will that process of dialogue begun in late January continue after this Sunday's election?

SECRETARY BAKER: President-elect Cristiani has stated his willingness to talk with the FMLN before his inauguration on June 1. We would assume that the major concern of the Salvadoran government in any discussions with the FMLN remains the question of whether the guerrillas are willing to end their violence. The FMLN has stated that it would be willing to continue the dialogue with the government after the March 19 elections. As a test of its sincerity, the FMLN should end the violence, particularly the urban terrorism, in order that the dialogue can resume.

SENATOR HARKIN: What steps will the U.S. take to encourage that process to continue?

SECRETARY BAKER: As we have made clear in the past, this is a matter for the Salvadorans to decide. We supported President Duarte's very positive responses to the FMLN proposal and would continue to do so on the assumption that the FMLN is sincere in its declared intention of finding a negotiated resolution of the conflict.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

DENIAL OF REFUGEE STATUS TO SOVIET JEWS

SENATOR MIKULSKI: Traditionally, the U.S. has made an automatic presumption that any Jew seeking to leave the Soviet Union had a "well-founded reason to fear persecution," thus meeting the definition of a refugee. Recently, however, hundreds of Soviet Jews have been denied refugee status by U.S. officials.

Do you have any reason to believe that the Soviets have changed their attitudes toward Jews? Isn't anti-Semitic rhetoric actually on the rise in the Soviet Union, as an unwelcome result of glasnost?

SECRETARY BAKER: State-sponsored anti-semitism has been muted considerably in recent months. Soviet authorities have taken a number of steps to improve religious and cultural freedoms, although many of the old repressive laws and practices remain in effect. We have been told that changes to these laws are forthcoming. We are continuing to press Soviet authorities not only to continue with these reforms, but to institutionalize them. Our attendance at the proposed 1991 Moscow Human Rights Conference is dependent upon such progress.

As our own experience shows, it is easier to change government laws and practice than it is to change public prejudices. This is the case in the Soviet Union today. There is a long history of anti-semitism in Russia, predating the establishment of the Soviet state. Today, several small groups, most notably "Pamyat," have adopted the cause of Russian nationalism and are expressing anti-semitic sentiments as part of their rhetoric. The greater freedom of speech allowed under the policy of glasnost' has allowed "Pamyat" and others to express some views that we find reprehensible.

EMERGENCY CONSULTATIONS

SENATOR MIKULSKI: Would you support the convening of an emergency consultation to respond to the Soviet emigration crisis?

SECRETARY BAKER: We have recently asked the Congress for a $100 million supplemental for the refugee program. Most of these funds, if appropriated, would be used for refugees from the Soviet Union.

As you know, the Refugee Act of 1980 requires consultations with the Congress before additional refugee numbers can be authorized by the President. I understand the President will shortly present a recommendation to the Congress to raise the refugee ceiling.

CYPRUS

SENATOR MIKULSKI: The Administration has reminded us of the recent Soviet withdrawal from Afghanistan, the imminent solution to the Angola/Namibia conflict and the expected withdrawal of Vietnamese troops from Cambodia.

Is there a chance we might soon hear the welcome report of Turksih withdrawal from Cyprus? Would this Administration be willing to give Cyprus a higher priority on its conflict resolution list?

SECRETARY BAKER: As recently noted in a reply to a letter from 15 members of the Senate Foreign Relations Committee, this Administration places a very high priority on the resolution of the Cyprus conflict. Within the context of an overall solution to the problem, both Turkey's President Evren and Prime Minister Ozal have stated that Turkish troops will be withdrawn as soon as a settlement is reached which takes into account the security concerns of the Turkish Cypriot community. Such a settlement is the subject of talks between the two Cypriot parties which are presently being held under the auspices of the UN Secretary General.

The leaders of the two sides have been meeting under those auspices since August of last year. They will be meeing in New York in early April with the Secretary General to continue the process they began at that time. As that meeting approaches, we have emphatically endorsed the Secretary General's recent call for an accelerated, intensified approach to the talks. We will continue to give strong support to the negotiation process and will make every effort to contribute effectively to the overall attempt to bring peace to Cyprus.

POPULATION PROGRAMS

SENATOR MIKULSKI: As a U.S. Congressman, President George Bush was a great champion of efforts to slow world population growth. He cosponsored some of the early legislation mandating foreign aid for family planning and chaired the Republican Task Force on Population and Earth Resources, which issued a strong report on the need to address this problem.

In 1972 he wrote: "Today the population problem is no longer a private matter. In a world of nearly 4 billion people increasing by 2 percent, or 80 million more, every year, population growth and how to restrain it are public concerns that command the attention of national and international leaders." Does this problem still "command the attention" of the President. Does he intend to reestablish U.S. leadeship in this area, and, if so, how?

SECRETARY BAKER: President Bush is firmly committed to voluntary family planning - here - and in developing countries. At the same time, he is opposed to abortion.

A.I.D. is a leader among international donors in population assistance. In recent years, A.I.D. has contributed over 40 percent of all the population assistance provided by government, private, and multilateral donors to the developing world. With annual obligaions averaging close to $250 million in recent years, the U.S. Government has spent more than $3.5 billion on family planning programs over the past two decades.

SENATOR MIKULSKI: As a Congressman, President Bush, assigned a uniquely important role in world population efforts to the United Nations. In 1986 the U.S. government withdrew all support from the United Nations Population Fund. Under what conditions would the Administration restore funding to the program? Does the proposed new five-year UN population program in China meet your conditions?

SECRETARY BAKER: U.S. funding for UNFPA could be resumed in the event that either the UNFPA program in China changes or the China program itself changes so as to make UNFPA again eligible for U.S. funds.

USAID has received a copy of the new five-year population assistance agreement (1990-1994) negotiatied between the UNFPA and the PRC. However, we do not yet have a position on the new agreement.

STATE DEPARTMENT RESPONSE TO PAN AM 103

SENATOR MIKULSKI: I wrote to the Department in late January concerning security suggestions made by the parents of one of the victims of the Pan Am 103 tragedy.

According to the reply from State Congressional Liaison and Ambassador McManaway, who recently appeared before the Transportation Subcommittee of Senate Appropriations, the State Dept task force operated 24 hours a day for a week to assist the families of the victims and 30 consular officers were posted from London to Lockerbie.

But according to the families of the victims:

> "... from mid-afternoon on that fateful Wednesday until nearly midnight we were unable to determine whether our Miriam was actually on board. We were able to reach the airline only once, at 9 p.m., to be told, unsatisfactorily, that it had no information and that it would call us 'momentarily.' Friends, relatives, well-wishers and, of course, the media, occupied the phone lines and turned that evening into a nightmare of redialings. Confirmation that all aboard were lost came from the London police task group at 6 a.m. the next day."
>
> "Whatever reasons the airlines had for possibly managing information, we believe that a standing task force -- of the U.S. State Department for int'l flights and the FAA for domestic flights -- should step in immediately and establish channels to the next-of-kin without fear of legal or other liability. The airline and the State Dept established parallel channels to London's Heatherow airport for identification purposes. It would have been kinder to offer local numbers which might have culled the merely interested from the next-of-kin, and directed the latter to a channel of best information."
>
> --There must be 2 Lockerbies because I never saw 30 State Dept. employees. I saw only 4 processing death certificates and 1 dealing with baggage.
>
> --Virutally all answers came from the British and Scottish police and Pan Am -- not State Dept.
>
> --Unlike the Scots and Brits, the State Dept fell short in the areas of notification, coordination and compassion.

Will you pledge to address this issue by establishing new guidelines for such tragedies in consultaion with families which have suffered through this process?

SECRETARY BAKER: Of course we wanted to contact the next of kin as soon as possible. In some cases we were able to do so almost right away, in others, it took longer. Within a half-hour after we learned of the destruction of Pan Am 103, we requested the passenger manifest and contacts list from Pan Am. Our Embassy in London also requested a list from Pan Am's office there. However, Pan Am determined that it would notify next of kin. We only received their contact list two days after the tragedy.

Our task force had a sketchy passenger manifest which Pan Am provided seven hours after the tragedy, upon the Department's repeated requests. With that and information supplied by telephone calls from family members and friends of the victims, we located some next of kin information in our passport files. Although our passport personnel worked through the night, they could not find records in cases involving common names. The manifest we had contained only surnames and first initials.

When we were finally able to determine who were next of kin, we often found it difficult to contact them because of engaged telephone lines.

We are talking with Pan Am and plan discussions with other American carriers to ensure that, in the future, manifests and next of kin lists will be made immediately available to the Department of State.

DENIAL OF LANDING RIGHTS

SENATOR MIKULSKI: Mr. Secretary, On March 14 the U.S. Department of Transportation issued an order that all foreign carriers must submit for our approval their security strategies.

Many foreign governments have told us that they are doing all they possibly can to comply with U.S. efforts to contain terrorist attacks. Sec. Skinner disagrees with their protestations.

Do you agree that denial of landing rights to any government/carrier that does not comply with U.S. security requirements would be an effective incentive for foreign cooperation?

SECRETARY BAKER: The Departments of Transportation and State are working closely together to enhance existing aviation security standards. Our joint efforts at the recent Ministerial level meeting at the International Civil Aviation Conference (ICAO) recognized the importance of international cooperation in improving existing international standards. We both agree that it would be counterproductive to our efforts to negotiate such improved standards if we impose restrictions where carriers are currently in compliance with those standards.

STREAMLINING PROCESSING OF SOVIETS AND POLES

SENATOR MIKULSKI: In last [illegible]r's Dire Emergency Supplemental, I added Report Language encouraging the State Department to economize and streamline its processing procedures to end the lengthy waiting periods for Soviets and Poles.

What has the State Department done to streamline the mechanics of its refugee and immigrant processing in the Soviet/Eastern Europe category?

SECRETARY BAKER: In the case of Soviet emigrants, after consultations with Congress the President in May 1988 authorized the processing of refugee applicants while still in the Soviet Union. For applicants with exit permission valid for the U.S., this meant that their cases could be processed to conclusion in Moscow, and after approval they could travel directly to the U.S. without having to stop in Western Europe.

Processing in Moscow results in a considerable savings in refugee program funds, and we are endeavoring to expand our capacity there to accommodate a greater proportition of the total population of Soviet applicants.

INS expects to have a second officer in Moscow by early April, a third officer there as soon as possible thereafter, and we hope to have a fourth officer in place by late May or June. Additional officers will allow more interviews to be conducted and shorten the waiting period for those interviews.

While no changes have been made so far in the mechanics of processing Polish or other Eastern European refugee applicants, admissions to the U.S. have continued steadily since last summer and the backlog of approved refugees has declined somewhat. The Department allocated virtually all FY89 Eastern European admissions numbers during the first two quarters in an effort to reduce this backlog and enable these approved refugees to come to the United States and begin new lives. We are studying new approaches to avoid a future buildup of approved cases.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

A.I.D. OVERSEAS REGIONAL INSPECTOR GENERAL OFFICES

SENATOR KASTEN: Mr. Secretary, last year Congress amended the Diplomatic Security Act of 1986 to vest in the A.I.D. Inspector General sole authority over the staffing levels of the Agency's overseas regional IG offices. This rather extraordinary action has a long history rooted in our concern up here over the integrity of foreign aid expenditures, and what we finally came to see as an implacable resistance by the permanent bureaucracy of the Department to these regional offices.

In preparation for these hearings I was surprised and disturbed to learn that the embassy in Dakar has failed to abide by the law, and just as strange and puzzling the Department in Washington has not stepped in with clear instructions to the responsible ambassador that the law will be obeyed to the letter. This is probably not a matter that has come to your attention in these early weeks, Mr. Secretary, but it is an issue which has had the close attention of this subcommittee for some years now.

Can I have your assurance that the Department will move quickly and firmly to correct this unacceptable situation?

SECRETARY BAKER: The Department of State firmly supports the need for thorough audit and inspection of the foreign aid program and recognizes the valuable service performed by the Inspector General's (IG) staff in this regard. We are working with the IG's office to ensure that increases to the overseas IG regional offices are implemented expeditiously. Because of security, administrative support, and overall mission staffing level considerations that each Chief of Mission must address, and for which he or she must ultimately be responsible, every increase to an IG office overseas must be examined on a case-by-case basis. The Department of State and all concerned Ambassadors have been responsive to recent requests and significant increases in IG staffing overseas have been accomplished. Of the twenty-four new RIG positions requested for Fiscal Year 1989 (five in Cairo, seven in Nairobi, four in Singapore, two in Tegucigalpa, and six in Dakar), only the establishment of four positions in Dakar is pending. We hope to resolve these cases in the near future.

GREEK BASE NEGOTIATIONS

SENATOR KASTEN: Mr. Secretary, what is the status of the base negotiations in Greece?

SECRETARY BAKER: The 1983 Defense and Economic Cooperation Agreement (DECA) between the United States and Greece expired on December 20, 1988. In accordance with the terms of the 1983 DECA, that date marked the beginning of a seventeen-month withdrawal period during which the terms and conditions of the DECA remain in effect.

Negotiations which began in November, 1987, are proceeding during the seventeen-month withdrawal period in order to continue exploring possibilities for reaching a mutually satisfactory new agreement. The negotiations have been conducted in a serious and professional manner, and have covered the various aspects of a new agreement. Important differences remain on some issues, but the negotiations are going forward. We continue to believe a new agreement is in the interest of both countries.

The next round is scheduled for April 10th in Athens.

ADMINISTRATION POLICY ON 7/10 RATIO

SENATOR KASTEN: What is the Bush Administration's attitude toward the so-called "7/10 ratio" of military assistance for Greece and Turkey?

SECRETARY BAKER: We will insure that our security assistance proposals to Congress are in line with the requirement of law that we should seek to preserve the present balance of military strength in the region. We do not believe, however, that any fixed ratio should be applied to our security assistance programs for these two countries. Moreover, Greece and Turkey have different military requirements, NATO mission, and levels of economic development. Our assistance request for each thus must be based on its particular needs and resources.

ENVIRONMENTAL REFORM AT THE MDBS

SENATOR KASTEN: With your leadership, the U.S. has insisted on strong voting criteria to protect the environmental resources of developing nations.

The U.S. cannot change these institutions alone - we do not control the governing board of any of the MDBs.

For this reason the Foreign Operations Committee included instructions to the State Department to solicit the support of other donor nations in calling for environmental reform of these institutions.

Can you tell me what actions the State Department has taken to date to seek the support of other nations?

SECRETARY BAKER: Last February, the Department provided Congress with a report entitled, "Promoting Environmental Reform in the MDBs Through Cooperation With Other Donor Nations." A copy of that report is attached. In cooperation with Treasury and A.I.D., our efforts during 1989 will intensify this collaborative process. I was particularly gratified to learn that, working with the Treasury Department and our partners in the Inter-American Development Bank, we were able to secure a replenishment agreement that significantly expands the Bank's environmental staff.

SENATOR KASTEN: Have any of the other sponsor nations actually begun to revise their voting policies to insist on stronger environmental criteria?

SECRETARY BAKER: The voting policies of other donor nations have not changed markedly. What has changed is the sensitivity of donor Executive Directors to the potential environmental consequences of MDB lending. Other Executive Directors now regularly raise environmental issues in Board discussions, and they are quick to criticize MDB management when environmental safeguards appear lacking. This has improved the loan preparation process, resulting in fewer problem loans. In at least one instance, a major MDB loan has been stopped by the environmental concerns of donor country Executive Directors. The record is still uneven, but the trend is unmistakable: the MDBs are becoming a positive force for the protection of Third World environments.

POPULATION PROGRAM IN CHINA

SENATOR KASTEN: Mr. Secretary, I believe you are aware of the difficulties we have faced over the years with the population program in China, and with efforts in Congress to ensure that no US funds would go toward supporting that program. Can you give us your view on this issue?

SECRETARY BAKER: The United States gives no bilateral assistance to the population program in China. And, since 1985 when the Kemp-Inouye-Helms amendment was passed, no US funds have been given to the United Nations Population Fund (UNFPA) because of that organization's population assistance to China. The UNFPA has now negotiated a new five year agreement with the Chinese that will be presented to the UNDP governing board in June. We do not yet know whether the nature of this new program will render the UNFPA eligible for future US funding. The Executive Branch will review this new project agreement very carefully in light of legislation and our own policies.

AFGHANISTAN

SENATOR KASTEN: I think the committee would be interested to know your assessment of the current situation in Afghanistan, as well as what the Administrations's plans are with respect to further assistance to the resistance, and hopefully to the leaders of that country?

SECRETARY BAKER: The situation in Afghanistan has changed in 1989. The Soviet Union fulfilled its international obligation to withdraw its troops from Afghanistan. The Afghan people displayed extraordinary sacrifice and dedication in their efforts to rid their country of foreign occupation. The international community, particularly Pakistan, has been steadfast in support for the Afghans. In the United States, our bipartisan policy, and close cooperation between the executive branch and Congress, made a major contribution to this historic event.

The United States welcomes the Soviet withdrawal, a major step toward world peace. At the same time, we recognize that the USSR bears special responsibility for healing the wounds of the war and call upon it to support generously international efforts to rebuild Afghanistan.

The U. S. supports a peaceful settlement in Afghanistan. Despite the withdrawal of Soviet troops, the situation in Afghanistan remains tragic, as the Afghan people continue their struggle for self-determination against the Soviet-imposed regime in Kabul. The Afghan people were in revolt against the Kabul communists before the Soviet invasion and will not rest until the current illegitimate regime relinquishes power in Kabul. Afghan resistance forces continue their difficult and heroic effort against a foe, well-armed in recent months by massive Soviet resupply. Nevertheless, we are confident of their ultimate success.

We view the recent formation of an interim government as an important development toward Afghan self-determination. We note that the interim government has begun filling its cabinet and taken initial steps toward becoming operational. We support its efforts to expand cooperation and broaden its base. The Afghans continue to have our support in their struggle for self-determination.

We recognize that much remains to be done. The commitment of the United States to the Afghan people remains firm. Our support includes both a bilateral cross-border humanitarian aid program, and support for United Nations efforts to remove mines, resettle refugees, and reconstruct Afghanistan's war-torn economy. We call on other nations to contribute generously to the UN humanitarian and reconstruction efforts.

CAMBODIA

SENATOR KASTEN: It would appear from press reports that negotiations to settle the situation in Cambodia in the wake of Vietnamese withdrawal have stopped.

What is the Administration's assessment of the current situation, and where to you believe we are headed on the resolution of this matter?

SECRETARY BAKER: Although the parties most directly affected failed to reach any new agreements during talks in Jakarta in late February, other discussions have already resulted in agreements in principle on some of the elements essential to an acceptable, comprehensive settlement of the Cambodian tragedy.

The early February Sino-Soviet Foreign Minister talks in Beijing, for example, seemed to bring some progress on such issues as establishment of an international control mechanism to oversee the Vietnamese withdrawal, cessation of arms aid, maintenance of peace, and free elections; they also agreed on a UN role, opposition to a KR return to dominance, and a freeze on and possible reduction of Cambodian forces following Vietnam's withdrawal; they disagreed on establishing a Sihanouk-led coalition government and on an international peace-keeping force.

In the aftermath of their intransigence at the Jakarta talks, we believe Hanoi and Phnom Penh must both show more flexibility in these same areas: the nature of an interim government preceding elections, and establishment of an international presence sufficiently strong to effectively support a settlement agreement.

The Cambodian parties will next hold a working group meeting in Paris, apparently in early April; a meeting of the leaders of the four factions has been proposed for June or

July. Of course, the discussions of Cambodia at the mid-May Sino-Soviet summit meeting will be very closely scrutinized as well.

We will continue our close and active consultations regarding a Cambodian settlement with the two noncommunist resistance groups, ASEAN, as well as China, the Soviet Union and others directly involved. We hope that the various diplomatic efforts now underway will lead to agreements on a comprehensive political solution acceptable to all sides which brings to an end the suffering of the Cambodian people, reestablishes a free and independent Cambodia, ensures that the Khmer Rouge can never again regain control, and restores regional stability.

DEBT FOR NATURE

SENATOR KASTEN: While you were Secretary of the Treasury, you led the efforts to reduce the debt of developing nations.

Treasury Secretary Brady has now announced the outline of a new "Debt Relief" plan.

The details of that plan are not yet publicly available.

What consideration has been given to including a major initiative to facilitate "Debt for Nature" exchanges as part of this new debt proposal?

SECRETARY BAKER: A good deal of thought has been given to facilitating debt-for-nature exchanges in developing countries. The greatest opportunities exist in the area of commercial debt reduction, which is the focus of the Administration's debt strategy. The number and size of debt-for-nature transactions has increased recently, and we continue to search for opportunities to encourage swaps aimed at resource conservation and environmental protection.

Opportunities also exist to cooperate with other donor nations in promoting debt-for-nature exchanges. We are also considering the options for swap transactions provided in our FY 1989 Appropriations legislation. Finally, we have worked hard and long to make the multilateral development banks (MDBs) a positive force for sustainable development.

In our search for solutions to global environmental problems, we will not forget that their fundamental causes can often be traced to such factors as misguided economic policies, poverty, and rapid population growth. Our primary efforts must be directed at solving these problems.

SENATOR KASTEN: What foreign policy gains could we make by including "Debt for Nature" provisions with a debt restructuring package?

SECRETARY BAKER: The United States has an obvious interest in seeing that our friends in the developing world are not crushed beneath their debt burdens. We also have an interest in seeing that the environment we share is clean and safe.

Beyond these obvious interests lies an obligation to provide innovative leadership to the world's pressing problems. We are providing this leadership in combatting the debt crisis; we can afford to do nothing less when it comes to the alarming environmental problems of the developing world.

PHILIPPINES

SENATOR KASTEN: One nation with particularly severe environmental problems is the Philippines. They are quite literally consuming the resources that are necessary to sustain future generations.

For example, they are destroying one of the world's most productive reefs with damaging fishing practices, clogging their rivers and bays with sewage, destroying productive farm lands with poor agricultural practices, and rapidly cutting their remaining forests.

Would you describe the potential foreign policy implications of letting this downward spiral of the resource base continue?

SECRETARY BAKER: A stable, prosperous and democratic Philippines is very much in the interest of the United States and our friends and allies in Asia. To the extent that poverty continues to be pervasive in the Philippines, disillusionment with the democratic system will grow. The communist insurgency is largely fueled by discontent and the lack of economic opportunities. This could threaten political stability and the survival of the democratic process.

Significant environmental degradation is both a result and contributor to poverty in the Philippines. The increase of population over the last decades and the decline of rural household incomes during the eighties have had a profound effect on natural resources, especially coastal areas and tropical forests. Fishermen, most of them very poor, have overfished their catch areas and through dynamite fishing have done great damage to marine life, especially coral reefs. Low income and landless farmers have pushed farther and farther into the upland areas, clearing forests for slash and burn agriculture. Combined with widespread illegal logging, this practice has resulted in the loss of 15 percent of the Philippines' forest cover over the past 20 years. These practices, if continued, will continue to contribute to a reduced natural resource base and poverty.

PVOS AND PHILIPPINE ENVIRONMENTAL MANAGEMENT

SENATOR KASTEN: The assistance programs run by private organizations in the Philippines are extensive. I understand that at least 30 U.S. based PVOs operate there.

What is currently being done, and more importantly, what more can we do, to coordinate the work of these PVOs in promoting environmental and resource management in the Philippines?

SECRETARY BAKER: PVOs play an important role in development. In the Philippines, we support U.S. and indigenous PVOs. The value of USAID's portfolio for assistance to PVOs, cooperatives, and other non-governmental organizations in the Philippines is approximately $80 million. USAID has expanded its support to PVOs and local organizations in accordance with their capacity to carry out projects.

The new PVO Co-Financing project places a special emphasis on protection of the environment which will add a long-needed dimension to PVO activities in the Philippines. USAID has included environmental soundness among the criteria for PVO activities. The environmental impact of PVO activities will be assessed in reviewing individual proposals with special attention to the preservation of endangered species, reforestation, wildlife, and the gene-pool of native crops.

USAID also plans to contract with a specialist in environmental education to increase public and institutional awareness of pollution, and environmental problems. This specialist will identify actual and potential environmental hazards, their localities, and work with PVOs, other organizations, and the media to enhance environmental consciousness.

SENATOR KASTEN: What plans do you have to ensure that the Multilateral Assistance Initiative will develop the human and natural resource bases of the Philippines?

SECRETARY BAKER: The use of the U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines' economic reform program and continuing discussions with other key donors. We currently expect that some part of our contribution will be budget support and sector programs linked to the implementation of agreed economic reform program aimed at promoting sustainable economic growth. The development of human resources and proper management of natural resources form an integral part of a sustainable economic growth strategy. In the Philippines, USAID will pay close attention to the development of both.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

PREPARATORY CONFERENCE IN KUALA LUMPUR

SENATOR HATFIELD: Please outline in detail the extent of U.S. participation in the recently concluded preparatory conference in Kuala Lumpur and the specific positions advocated and agreed to by the U.S. at the conference.

SECRETARY BAKER: The U.S. has been an active participant in events leading up to an international conference on Indochinese refugees. Last July, in response to a proposal from the ASEAN foreign ministers, former Secretary Shultz proposed the formation of a working group of concerned parties to explore new approaches for dealing with the region's continuing flows of Vietnamese and Lao asylum seekers. A first meeting of this group was held in early September 1988 which included the ASEAN countries, Hong Kong, UNHCR, and the major resettlement/donor countries including the U.S. Two additional working group sessions were convened, which included an expanded pool of participants, most notably the governments of Laos and Vietnam.

These working group meetings made steady progress and a number of U.S. proposals were well-received, including U.S. calls for a renewed commitment to the practice of first asylum. The group produced a draft declaration and Comprehensive Plan of Action (CPA) which were endorsed at a preparatory conference held in Kuala Lumpur March 7-9. The U.S. played an active role in the preparatory conference, which was attended by 30 countries, including the major resettlement/donor countries, countries of first asylum, and Laos and Vietnam.

The prepcon was successful in expanding a consensus on the CPA and in continuing progress towards the international conference on Indochinese refugees which the U.N. Secretary

General will convene in June. The draft CPA, which will be forwarded to the Secretary General for consideration at the international conference, is designed to put in place a comprehensive set of policies and procedures to revitalize the international, multilateral effort to address the Indochinese refugee problem. It embodies an integrated set of commitments and contributions from all concerned parties -- countries of first asylum, countries of origin, and resettlement and donor countries. Among the subjects which are addressed in the draft CPA are clandestine departures, regular departure programs (such as the Orderly Departure Program [ODP]), reception of new arrivals, determination of refugee status, resettlement, and repatriation.

Key U.S. objectives in this process have been the full restoration of first asylum, humane treatment for all asylum seekers, and a more efficient and accessible ODP.

INTERNATIONAL CONFERENCE ON INDOCHINESE REFUGEES

SENATOR HATFIELD: What role will the U.S. play at the upcoming International Conference in Geneva? What positions will the U.S. take at the Conference?

SECRETARY BAKER: The U.S. expects to play an active role in the June conference on Indochinese refugees. Preparations are now underway to ensure that the conference results in genuine agreement on effective new approaches for humanely dealing with continuing asylum seeker flows. A series of sub-committees, formed following the Kuala Lumpur preparatory conference, are now meeting to further refine aspects of the comprehensive plan of action. The U.S. will be represented at each of these meetings, and will pursue aggressively key U.S. objectives such as the full restoration of first asylum, humane treatment for all asylum seekers, and a more efficient and accessible Orderly Departure Program [ODP].

At the June international conference the U.S. hopes to join other nations in formally endorsing the comprehensive plan of action. The plan, which is fully supportive of the key U.S. objectives outlined above, also calls for the humane deterrence of clandestine departures, implementation of asylum seeker screening, and the voluntary return to Vietnam of those determined to have no claim to refugee status.

The U.S. will commit itself to active participation in continued resettlement programs for those new arrivals determined to be refugees, and for long-stayers now in first asylum camps.

MOZAMBICAN REFUGEES IN SOUTH AFRICA

SENATOR HATFIELD: Please provide some general background about the status of Mozambican refugees in South Africa.

SECRETARY BAKER: Mozambican refugees are found in the border areas adjoining Mozambique, the townships in the industrial zones of the Transvaal, and in the so-called homelands of Kangwane and Gazankulu. Those refugees located in the homelands have up to now been afforded refuge by the local governments and issued temporary resident permits. For Mozambicans outside of Gazankulu and Kangwane, the South African Government (SAG) does not recognize refugee status.

SENATOR HATFIELD: What is the policy of South Africa towards these refugees?

SECRETARY BAKER: South African law does not provide for a mechanism whereby an individual can enter the country and apply for refugee status or asylum. The SAG therefore considers Mozambican refugees to be illegal aliens. If a refugee is discovered by authorities, he is deported to Mozambique. In addition to refugees, there are, and have been for many years, large numbers of Mozambican economic migrants in South Africa. During 1987, approximately 34,000 Mozambicans were deported from South Africa. How many of those were genuine refugees is unknown, as no screening process to identify refugees exists.

SAG policy towards refugees in the homelands is unclear. It has tolerated the homeland governments' policy of offering refugees temporary residence, while putting some pressure on the governments (to which the governments have not, to date, responded) to repatriate the refugees. We have reports, however, that the SAG may have decided to forcibly repatriate these refugees in the near future.

SENATOR HATFIELD: How many are there?

SECRETARY BAKER: The number of genuine refugees in South Africa is unknown. The South African Council of Churches has estimated there are 225,000 refugees. Estimates of Mozambicans in South Africa, both economic migrants and refugees, run as high as one million. In the homelands of Kangwane and Gazankulu, the International Committee of the Red Cross (ICRC) registers incoming refugees. Approximately 39,000 refugees have registered in the two homelands. Many of the refugees, particularly adult males, after registering and leaving their families in a homeland continue on to other areas to seek work. Only 27,000 registered refugees are now in the homelands. ICRC estimates that 30,000 to 40,000 refugees who have entered the homelands failed to register for fear of repatriation.

SENATOR HATFIELD: Does the United States, the United Nations High Commissioner for Refugees or the International Committee for the Red Cross have any program to meet the needs of these refugees? If not, why not?

SECRETARY BAKER: In Gazankulu and Kangwane, several groups, including ICRC, Operation Hunger, South African Council of Churches, and Medicins Sans Frontieries, are active in providing relief to the refugees. Registered refugees receive a monthly food ration and have access to medical care and social services.

Other than those registered in Gazankulu and Kangwane, there is no program to meet the needs of the refugees. As their status is that of illegal aliens, they do not live in specific areas and would be reluctant to identify themselves as beneficiaries of a program directed at refugees. As noted above, many refugees who had relief programs available to them in Gazankulu and Kangwane have left in search of work in the South African economy.

The United Nations High Commissioner for Refugees (UNHCR) currently has no presence in South Africa. The United States has consulted with both the UNHCR and the SAG in the hopes of establishing a greater amount of international involvement with the refugees in order to protect Mozambican asylum seekers.

ACDA FUNDING AND ADMINISTRATION

SENATOR HATFIELD: I am very pleased by the personal commitment of the President to a multilateral chemical weapons treaty, and by the comments you made during your statement to the Subcommittee regarding the determination of the Administration to "make progress soon" on this issue. A related issue of concern to the Congress is verification.

Is it correct that the Arms Control and Disarmament Agency has the statutory responsibility for carrying out research in support of arms control negotiation. If so, should both the funding and administration of chemical weapons verification research be handled through ACDA? Would it be desirable to carry out additional verification research in anticipation of a chemical weapons treaty?

SECRETARY BAKER: Yes. The Arms Control and Disarmament Agency has the statutory responsibility to conduct research in support of arms control negotiations. ACDA will certainly take the lead in managing chemical weapons verification research. However, other agencies should also be involved. The Department of Energy has some very promising research in CW verification under way. I believe that additional research is absolutely essential for completing a useful treaty.

HUMAN RIGHTS IN TIBET

SENATOR HATFIELD: The human rights situation in Tibet has deteriorated dramatically in recent weeks, triggered by widespread protests against Chinese authority. Martial law has been declared and dozens of unarmed civilians have been killed and wounded.

What is the position of the US on the human rights situation in Tibet and in what way has the US made this position known to Chinese officials?

SECRETARY BAKER: The State Department has deplored publicly, and through private demarches to the Chinese, the violence and excessive use of force against demonstrators during the December 10 and March 5-7 incidents. Also, we have urged the Chinese to permit US officials to visit prisons in Tibet and to open Tibet to foreign correspondents and tourists. We believe that martial law should be lifted and Tibet reopened to foreigners.

Notwithstanding the Chinese view that the situation in Tibet is an "internal matter," the Administration considers, as does the Congress, human rights abuses to be antithetical to our national tradition and to the principles of the International Declaration of Human Rights. The US government considers Tibet a part of China. We believe, however, the issue of sovereignty is distinct from the question of protection of human rights. In that vein, we have raised the matter of human rights in Tibet with the Chinese on numerous occasions. We have told the Chinese that the Department could support Congressional resolutions which called for respect for human rights and for talks between the PRC and the Dalai Lama.

During President Bush's recent visit to China, I raised the subject of Tibet with my Chinese counterpart, Foreign Minister Qian. I underscored the broad bipartisan support in the US for continued improvement in Sino-US relations, and noted this support required the US to make clear its deep commitment to human rights in Tibet as well as elsewhere in China.

Both the Dalai Lama and the PRC have recently reiterated calls for a peaceful resolution of problems in Tibet through dialogue. I told Foreign Minister Qian of US interest in resumption of dialogue between the PRC and the Dalai Lama which would be an important step toward resolving the problems in Tibet. The Administration agrees with the Congress that such a dialogue should be encouraged as both parties seek to reach a common ground on the conditions for dialogue.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

DRUG TRAFFICKING

SENATOR D'AMATO: Has the Mexican government arrested, prosecuted, and convicted a single major drug trafficker in the last year?

SECRETARY BAKER: Yes. Rafael Caro-Quintero, arrested in 1985 in connection with the murder of DEA Special Agent Enrique Camarena, was convicted and sentenced in September 1988 to 34 years incarceration in connection with drug-trafficking activities. His separate trial for the Camarena murder is nearing its end, with verdicts expected later this year.

The following major violators were arrested in 1988-89:

a. Miguel Quintero-Paez (with four other members of the Quintero family) - March 1988, state of Sinaloa.

b. Filemon Medina-Medina - April 1988 in Altata, Sinaloa.

c. Juan Lizarraga-Lizarraga - April 1988 in Guadalajara, Jalisco.

d. Juan Jose Quintero-Payan - May 1988 in Guadalajara, Jalisco.

e. Jose PINEDA-Trinidad - June 1988 in Guadalajara, Jalisco.

f. Juan Frank Garcia

g. Hugo Etienne-Marin - September 1988 in Mexico City.

h. Gilberto Ontiveros-Lucero - January 1989, Ciudad Juarez, Chihuahua.

i. Guiseppe Catania-Ponsiglioni - February 1989, Ciudad Juarez, Chihuahua

SENATOR D'AMATO: Which Mexican drug trafficking organizations, if any, have been dismantled by Mexican law enforcement efforts?

SECRETARY BAKER: The following drug trafficking organizations have been dismantled by Mexian law enforcement:

Organizations Dismantled:	Juan Esparragosa-Moreno, arrested in 1986. Ernesto Fonseca-Carrillo - Arrested in 1985 in connection with the Camarena murder.
Disrupted:	Jose Pineda-Trinidad organization. Hugo Etienne-Marin organization. Gilbeto Ontiveros-Lucero organization including Giuseppe Catania-Ponsiglioni. Jaime Figueroa-Soto - Arrested in 1988 in Tucson, AZ.

SENATOR D'AMATO: Does the Mexican government permit U.S. law enforcement agencies to verify the drug eradication claims made by the Mexican military?

SECRETARY BAKER: No they do not.

SENATOR D'AMATO: What security does the Mexican government provide drug enforcement agency agents and their families in Mexico, other than unarmed civilian guards?

SECRETARY BAKER: The Mexican Government provides the same protection to DEA agents that it provides to all diplomatic and consular personnel in Mexico. DEA provides guard service for residences at certain high-risk posts.

SENATOR D'AMATO: Are concerns by drug enforcement agency agents and their families about inadequate security in Mexico affecting the willingness of DEA agents to serve in Mexico?

SECRETARY BAKER: DEA has encountered problems encouraging agents and their families to apply for assignments in Guadalajara, Hermosillo and Mazatlan.

DEA has encountered no security-related difficulty in filling vacancies in Monterrey, Merida, and Mexico City. All DEA assignments to Mexico are voluntary.

SENATOR D'AMATO: What is the State Department doing to improve security for drug enforcement agency agents and their families in Mexico?

SECRETARY BAKER: The Department is distributing two-way radios to DEA residences. The Department also plans to modernize alarm systems.

SENATOR D'AMATO: We support private sector drug education programs. The government of Ecuador runs an extensive public sector education program through the office of the Attorney General. If the State Department were provided with additional funds, would you consider supporting these public sector drug prevention programs?

SECRETARY BAKER: The Bureau has actively encouraged inclusion of drug abuse demand reduction and public awareness elements, both public and private sector, in its priority country programs. We also cooperate with a number of international organizations to help other developing countries come to grips with their growing problem of drug abuse.

We would welcome additional funds to support both public sector prevention programs and regional prevention projects.

SENATOR D'AMATO: How do we foster better international cooperation in the area of chemical weapons precursors control?

SECRETARY BAKER: We must continue supporting the efforts of the Australian Group. Since 1985, nineteen Western industrialized countries have met to discuss multilateral export controls with regard to certain countries developing chemical weapons. In addition, these countries exchanged information regarding chemical weapons proliferation. Under the chairmanship of Australia, group members have agreed to impose national export controls on certain chemical weapons precursors with the goal of denying them to probable users. Members of the Australian Group also developed and shared with their respective chemical industries a CE "warning list" and have asked their industries for information in cases where export of warning list chemicals is requested b;y probable users. Through regular consultations, the Australian Group has attempted to improve the effectiveness of these controls and to find other measures to curb the proliferation and use of chemical weapons.

The U.S. has in place a strong system of export contorls on CW agents and teir precursors. Among the nineteen members of the Australian Group up to 44 chemical weapons precursors are controlled by various countries in various ways. Some nations' export controls are as extensive or more so than our own. For example, Ireland controls 40 chemicals to all destinations. The U.S., which has a more developed chemical industry, controls about the same number but in many cases its controls are specific to certain target countries. In addition, the U.S. is currently reviewing its whole system of export controls on CW to see if there are additional controls which can be proposed to the Australian Group during the next scheduled meeting 9 - 11 May.

SUBCOMMITTEE RECESS

Senator **Leahy**. The subcommittee will now stand in recess until 2 p.m., Thursday, March 16.

[Whereupon, at 12 noon, Wednesday, March 15, the subcommittee was recessed to reconvene at 2 p.m., Thursday, March 16.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, MARCH 16, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:10 a.m., in room S-126, the Capitol, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, and Kasten.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF AMBASSADOR ALAN WOODS, ADMINISTRATOR

OPENING REMARKS OF SENATOR LEAHY

Senator **LEAHY**. Good morning. We had our first hearing yesterday where we heard from Secretary Baker and discussed in broad terms the fiscal year 1990 foreign operations budget request.

Mr. Woods, we will continue with that here today. I note the priority before us. We are going to have a whole lot of hearings but the first two are you and the Secretary.

There are a number of reasons for that. I think you have an extraordinary part to play. I appreciate very much the way you have dealt with us in an open, candid, and frank way. We have done that before in other committees that I have been involved with.

I also want to mention Kelly Kammerer who has been the director of the AID Legislative Affairs Office since 1983. Kelly?

Mr. **KAMMERER**. Yes, sir.

Senator **LEAHY**. He is about to become AID's mission director in Nepal. On behalf of the whole subcommittee, I want to pay my respects to him for the great job he has done. I don't want to embarrass him very much, but we relied heavily on him and his staff for years. He has always been an absolute professional, and our good relationship with AID is because of Kelly. I am going to miss him an awful lot. I think the only criticism I have is that he is leaving just as I become chairman. I got used to relying on him so much.

There is another personal mention too. The dearest friends my wife and I had in Vermont, the Murthas, have three absolutely lovely children. My wife and I are godparents of their youngest child and Kelly is the godfather of Elizabeth, their oldest child. So we have a kind of a personal relationship. They will be coming down to visit soon, but unfortunately Kelly will have left for Nepal by then.

First, I would like to discuss the budget. There are serious problems there. I think that we need more resources for our foreign aid programs, not less. We have the Gramm-Rudman-Hollings targets. The President wants no new taxes, he has asked for no new taxes, there will be no new taxes. He also asked for large increases in foreign aid including a $200 million special initiative for the Philippines. I know you support that and I might well agree. In fact, the majority of the committee may well agree it is a good idea, but I don't know how we are going to pay for it.

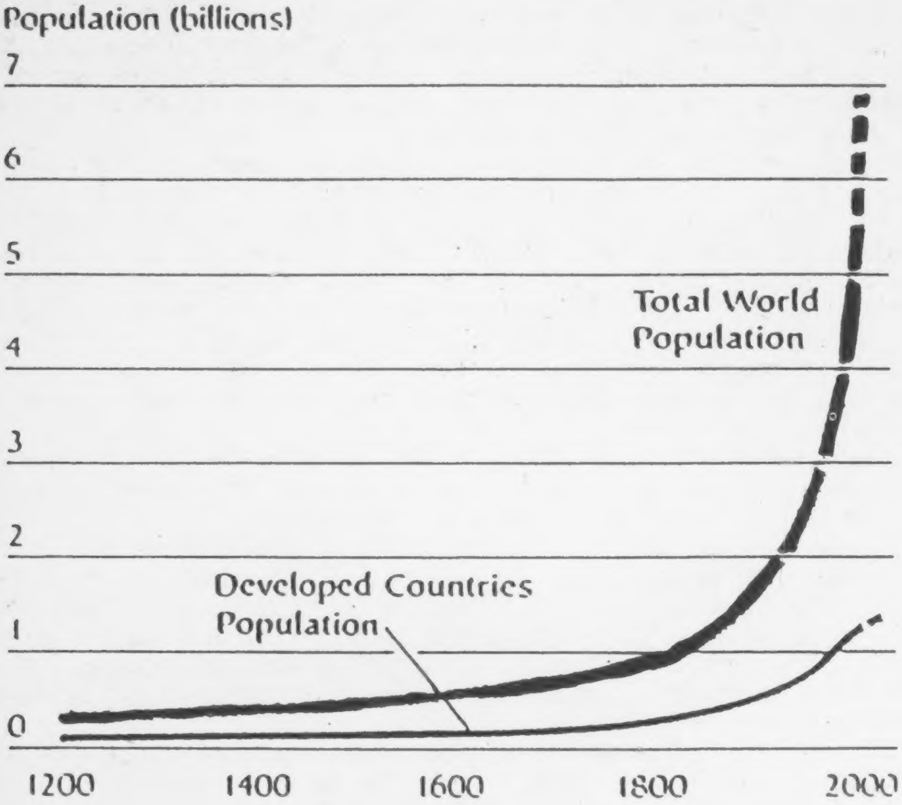
Foreign operations, like everything else, is a zero sum game. We are going to have to set priorities because if there is not going to be more money, how will we pay for everything that is in here?

The second major topic of special concern is the debate about the House foreign affairs, AID, and other reports on restructuring our foreign aid programs.

I have been trying to read as many of those different reports as I can. I find much in your report and others that I agree with. I want to discuss what we can expect to accomplish with the small amount of money we have.

Third, the issue of the population explosion in the Third World. This chart over here shows the Third World's population doubling over 40 years. Ninety-five percent of those births are going to occur in countries that are already dependent on foreign aid.

Past and projected world population, 1200-2000



Sources: The World Bank, *World Development Report 1984* (Oxford University Press: New York, 1984), p. 3, and *World Development Report 1988*, op. cit. pp. 274f., 269.

If there is any single obstacle to everything AID is trying to do to encourage economic growth and reduce poverty, it is in that enormous population explosion.

At some point, notwithstanding some of the lobbies that go back and forth on such issues, the population issue must be addressed.

Finally, I have a special program that I am very concerned about that involves a tiny amount of money in the overall budget. It is a program I initiated last year to help the civilian victims of war.

Our policy seems to be that we will support preventive health care in developing countries but not care for the hundreds of thousands of people who have suffered crippling injuries from civil conflicts. We have some very poorly trained Soviet doctors who are doing this work and getting the credit for it. We have much better doctors here, and we ought to be doing something about it.

We have talked privately about that program before. I just want those on your staff to know, if they get calls from our office, whether it is Tim Rieser, Rand Fishbein, or any of the others who have worked on it, they are calling for me. This is something I am very, very interested in.

I remember well the time when Eric Newsom and I helicoptered into a hospital in the jungles of Honduras. I thought, in fact, as we were landing, that it was part of an agricultural shed, the nature of it, this great big long building out in an opening. It was 95, 100 degrees both outside and inside, no air-conditioning in this big dormitory with beds on a dirt floor. And a young boy about 15, 16 years old came and talked to us there.

My son was the same age at the time so I remember it very well. The boy had one leg missing. He had stepped on a mine. It is not really important whose mine it was, what side placed it. It didn't make a difference to him, he didn't care because he had lost a leg.

He had been there 3 years. He couldn't work. He was a peasant child—normally they do manual labor, or farm work—but he couldn't. He spent 3 years there on a road where he could use a relatively inexpensive artificial limb. There was somebody there not only to provide it but also to do the more important thing—show him how to use it.

That memory sticks in my mind all the time. We have the same situation in Mozambique and many other areas. We really have to do something to continue funding war victims.

I hear about the fact that foreign aid is very unpopular. But I am a strong believer in foreign aid as a part of American policy. If we use it wisely, it can make a difference between life and death for millions of people. AID has an awful lot to be proud of in that area but I think, as you point out, it has become too bureaucratic or too consumed in justifying and reporting its programs and not enough with implementing them.

AID can't be all things to all people even though sometimes political pressure from the Hill wants it to be. However, we do need to find out what we have accomplished, where the money is going, and what your plans are. I will leave the record open for opening statements.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO

Thank you, Mr. Chairman. I'd like to welcome Ambassador Woods back to this subcommittee. Your statement modestly reflects the excellent job which your agency has been doing for many years.

At times, I'm sure, your tasks seem insurmountable and the results of long, hard efforts are less than hoped for. But we must remember that development assistance is not simply a program of good will handouts. It is a long-term investment in the political and economic futures of nations who are friends of the United States and partners in our own future.

It is impossible to measure the return on this investment. But we can say with certainty that if the United States pulls back from its open hand policy to nations in need, we will pay a much much higher price when emerging foreign markets fail, civil unrest bursts into violence, and regimes falter.

As a result, U.S. industries which base their foreign investment decisions on market stability assessments in the nations of interest, will pull back from overseas enterprises. The outcome will be an increase in the U.S. trade deficit. And even more disturbing is the fact that the Soviets have demonstrated time and again their opportunism when it comes to weak governments in the Third World.

Ambassador Woods, I look forward to working with you this year on development assistance. It is the obligation the United States has as a world leader and the practical necessity of protecting our own interests abroad.

Thank you, Mr. Chairman.

PRAISING SENATOR BOB KASTEN

Senator LEAHY. I know Senator Kasten has about five other conflicts going but you know there has been no member of this committee that has spent more time and been more concerned on these programs than Bob Kasten has, so please keep in mind that he is concerned too. Please go ahead Ambassador Woods.

OPENING REMARKS OF AMBASSADOR WOODS

Mr. WOODS. I will be brief, Mr. Chairman. It is a pleasure to appear before the subcommittee today and discuss our development assistance request for 1990, and in particular, Mr. Chairman, to have the opportunity to have this hearing with you as chairman for the first time.

At this moment there are two issues that I want to highlight. Then I will be glad to take whatever questions you might have.

The first issue is that I really want to work hard to see that AID is a better-managed agency. Managing AID programs is not easy because of the type of work we perform—at very high risk, a long way from home, and in environments that are very difficult. At the same time we are quite properly held to a high standard of accountability by the Congress and the American taxpayer.

That accountability entails a lot of work and it is staff intensive. Frankly, shortages in direct-hire staff have impeded the ability of the agency to achieve the level of accountability that we both desire. I want to correct this problem.

One of the reasons for a portion of the increased request for operating expenses for fiscal year 1990 is a desire to do something about that problem. These resources play an important role in our quest for stricter accountability, stronger management over both program and finances, and greater impact for our development dollars.

We need the resources to begin to address the manpower problem, getting people out to the field, particularly in Africa, where our program has been increasing, and filling critical vacancies in Washington.

There are additional and, indeed, more expensive reasons for our higher operating expense request. One is the congressionally mandated change in the foreign affairs administrative system, which accounts for fully one-third of our operating expense increase. The others are the January pay increase and the new Federal retirement system. These costs are, in fact, out of our control.

Senator LEAHY. Are you going to have to take funds from other programs?

Mr. WOODS. It won't come out of programs. It will come out of people—out of staff levels. Without this increase, we will have to reduce people, which is opposite the direction I would like to go in.

Second is the multilateral assistance initiative [MAI] which you mentioned with regard to the Philippines. The $200 million which has been requested for 1990 will enable us to affirm our commitment to President Aquino and to her democratic government, to encourage economic growth in the Philippines and also to provide a vehicle for better, more efficient utilization of foreign assistance, rehabilitation of Philippines basic infrastructure, and improvement of delivery of social services.

The MAI will allow us to stretch our limited foreign assistance dollars by leveraging our dollars with those of other donors, both bilateral and multilateral, as well as private sector resources.

We are about to embark on a decade both of opportunity and testing for policymakers in developing countries as well as ourselves. As we enter the last decade of this century, I think we have the resolve, but we are going to need resources. I believe the budget for 1990 which AID has submitted will enable us to begin to address those issues.

PREPARED STATEMENT

It is a well-scrubbed budget from my perspective. I look forward to taking any questions you and other members of the committee might have about it.

[The statement follows:]

STATEMENT OF ALAN WOODS

INTRODUCTION

Mr. Chairman, members of the Committee, it is a pleasure to appear before you today to discuss the fiscal year 1990 development assistance budget request.

A.I.D.'s development assistance request for fiscal year 1990 reflects budget priorities and fiscal reality.

The transition to a new Administration and a new Congress has led many to take a fresh look at the underpinnings of the foreign assistance program. A.I.D., the Congress and a number of outside groups are currently examining the future direction of foreign assistance. These efforts mirror, at least in part, the challenges and problems confronting policymakers in developing countries.

As we approach the 21st century, leaders in developing countries are sensing, with a new urgency, the need to improve rates of economic growth. They are looking with a new realism at their economic and political destinies. Centralized economic control is being liberalized. As this process unfolds, the energies of the individual are being unleashed and opportunities for real progress are taking on exciting new possibilities. political leaders realize that the freedom inherent in the democratic process and open and free markets can pave the way to sustained economic growth and productivity. We are working to reinforce this trend, and assist countries to manage the difficult and sometimes disruptive transition from centralized control to freedom and from stagnation to growth.

The report recently released by A.I.D., "Development and the National Interest", looks closely at the hazards of no-growth policies and excessive government control over the economy. It concludes that these two factors have impeded developing country attempts to alleviate poverty for more than 25 years. Traditional modes of delivering foreign aid need to be carefully studied, to make sure that our assistance does the job of getting developing countries back on the growth path. Our dollars must help to build the economic foundations which allow developing countries to tap their own resources—material and human—to fuel their economies.

To be sure, significant progress has been made in our efforts to improve the quality of life in developing countries over the 28 years of A.I.D.'s existence. Measurable reductions in infant and child mortality rates have occurred as a result of our child survival and health programs. Agricultural technologies have been disseminated widely, resulting in vastly increased yields and clear movement toward food self-sufficiency in a number of countries. We have 20 years of experience in the population field and, as the principal international donor in population programs, the United States has provided 40 percent of external population assistance to developing countries in recent years. We are proud of our successes and intend to build on them. However, it is not enough to be satisfied with progress in one or two sectors of development—we must press ahead with comprehensive country programs which promote economic growth on all levels. We must strengthen the ability of the private sector to deliver population, health and other social services in these countries, with the objective of making these critical services more accessible and sustainable. To this end, we are devoting $20 million within our functional development assistance accounts in fiscal year 1990 to the development of private sector capacity to deliver social services.

The formula for a successful, sustainable economic system must be carefully crafted on a case by case basis. There is no one model for sustainable economic growth. If there were, our job would be relatively easy. Our help must be tailored to the internal conditions of each country. Changes introduced have to make sense for a country's unique social, cultural, economic and political situation and above all, they must be sustainable in the long run.

The implications and opportunities for the United States are enormous. Our investments should buttress the progress which has already been made and help clear the path for additional reform measures. The United States has a long history of helping and caring for others. We have a good sense about what works and what doesn't. We know that democracy and open economic systems work to release the energies of the people to attack the scourge of poverty which still stalks much of this globe. We know that real opportunities to get ahead must be extended throughout a society.

U.S. INTERESTS

Rapid changes are bringing the world closer together. All nations are becoming more dependent upon one another's prosperity and security. We need to convey this more clearly to the American public.

For much of the American labor force, the future lies in the creation and expansion of markets in the developing world. Competition for these markets will be fierce, but we already have a firm foothold, with one-third of U.S. farmland and more than 5 million American jobs dedicated to export production. Also significant is the fact that almost one-quarter of total U.S. direct investment overseas is in the developing countries. The trends embodied in these statistics will intensify dramatically over the next century. They show that the tax dollars we use to spur economic growth overseas helps to sustain economic growth here at home.

Americans are practical. They want their tax dollars to be used effectively. I believe that they would strongly support our foreign assistance program if they understood how the benefits of providing this help came back to the United States in the form of jobs, exports and a better world environment. To be sure, getting this message across is easier said than done—but it is a job on which you in the Congress and we in the Administration need to work together.

We must improve the effectiveness of our development programs. To my mind, effectiveness is more than getting commodities to their intended destination or hurrying the disbursement of obligated funds—it is balancing our long-term goals for a given country with the reality of our on-the-ground operations. Assessing the many variables which can affect the successful implementation of our country programs is the first step. Designing projects and programs from the field perspective, with sufficient flexibility to enable our field people to respond to changing circumstances makes for effective implementation. Evaluations and audits need to assess our relative successes and failures in a country context—we must know if our projects and programs are resulting in real and sustainable progress at the local level.

FISCAL YEAR 1990 DEVELOPMENT ASSISTANCE BUDGET REQUEST

If we are to address this emerging challenge, the right level and mix of resources will be required. Without such resources, opportunities will be missed. Money is not enough, manpower is also needed. The presence of field missions with on-the-ground, experienced teams of development professionals is essential.

The administration's fiscal 1990 request for development assistance is $2,418,025,000, which is 1.9 percent greater than the amounts appropriated for fiscal year 1989. An additional $200,000,000 is requested for a new special assistance initiatives account, with the first year designated for the U.S. contribution to the multidonor multilateral assistance initiative for the Philippines. The functional development assistance portion of this request is $1,234,000,000, which amounts to a difference of less than 1 percent from last year's appropriated level for these accounts. The Agency's request for operating expenses [OE] is $447,684,000 for fiscal year 1990, compared to the fiscal year 1989 appropriation level of $418,000,000.

OPERATING EXPENSES

A high priority for A.I.D. over the next 2 years concerns internal management, on all levels. We cannot hold developing countries to higher management standards than we set for ourselves. I am reviewing with my senior managers at A.I.D. as well as others, our management systems and identifying areas for improvement. I am committed to making these improvements and to strengthening our ability to effectively manage our people, programs, and resources.

The need for an increase in operating expenses if fourfold:

First, A.I.D. is an Agency which is under a great amount of stress, not only because of where we work and what we do, but also because we are properly held to a very high standard of accountability by the Congress—and accountability entails a lot of work.

Second, we need to restore our on-board strength to authorized levels, getting our people out to the field and filling critical vacancies in Washington. The minimal increase in operating expenses in fiscal year 1989 forced a partial hiring freeze in order to make it through the year without supplemental funds. Filling these positions with the emphasis on improving our accountability is my highest priority in fiscal year 1990.

Third, and this has great importance in dollar terms, we must fund changes in the Foreign Affairs administrative system mandated by Congress. This item accounts for fully one-third of the increase in operating expenses.

Fourth, we have to accommodate the costs of the January pay raise and the continuing costs associated with the new Federal retirement systems.

I have placed accountability, both program and management, at the top of my list of priorities. In the area of program accountability, emphasis has been shifted to implementation and evaluation. I am pleased with the progress which has been made in ensuring that program objectives are being met, but there is room for improvement. Additional steps will be taken.

Financial accountability means providing reasonable assurances that our assistance is not being misused. You expect as much and so do I. In 1987, I had an outside group of experts examine the financial management function within A.I.D. Several personnel and organizational changes were made as a result of their findings. I have also consulted our Inspector General about our financial management practices and we agree that increased accountability for appropriated dollars is essential. We also agree that shortages of direct-hire staff have impeded our ability to achieve the level of accountability we both desire.

DEVELOPMENT ASSISTANCE

Our quest for a better managed program has significant implications for the manner in which we use Development Assistance resources. The many and varied programs funded with DA must stem from our field level assessment of individual country needs and realities. While only 2 years old, the Development Fund for Africa (DFA) is proving to be a workable approach to effective, country-based programming. We are looking at the possibility of expanding the DFA concept to other geographic regions, in an effort to make all of our programs more performance-based and to integrate project and non-project assistance in a more coherent package.

DEVELOPMENT FUND FOR AFRICA

For a third year, we are requesting funds outside of the traditional functional account framework for the Development Fund for Africa (DFA) This year's request, at $565 million includes $50 million for the Southern Africa Regional Program that supports the efforts of the Southern Africa Development Coordination Conference (SADCC). An Africa Emergency Reserve is also requested at $15 million within this account, to be used, if necessary, to fund the longer-term aspects of locust and other disaster operations in Africa.

The DFA has allowed us to apply the concept of performance-based programming and concentrate our resources on fewer countries with greater potential for growth. In this coming fiscal year, over half of bilateral DFA will be targeted to ten major high-performing countries in sub-Saharan Africa. Of the 40 countries A.I.D. assists in this region, the 20 highest performers will receive approximately 80 percent of the bilateral DFA resources. The economic reform programs being undertaken by these countries will be reinforced by way of redefining and reducing the role of the public sector and increasing its efficiency, strengthening competitive markets, developing the potential for long-term increases in productivity in all sectors and improving food security.

FUNCTIONAL DEVELOPMENT ASSISTANCE ACCOUNTS

For the Latin America and Caribbean and Near East and Asia regions, Development Assistance funds are being requested for the following activities:

Education and Human Resources Development.—The largest increase in our functional development assistance accounts is in our request for education and human resources. $139 million is requested for fiscal year 1990, compared to $129,541,000 appropriated in fiscal year 1989. Education and specialized training are key ingredients to economic growth because literate people take a more active role in shaping their own destinies and making their own choices. Our programs improve and expand basic schooling opportunities for children, provide skills training for adolescents and adults, and support specialized training in scientific, technical and managerial fields. A skilled pool of host country personnel need to be ready and able to take advantage of the opportunities of an expanding private sector.

Private Sector, Energy and Environment.—A.I.D. is requesting $123,984,000 for this account in fiscal year 1990, compared to $120,709,000 appropriated in fiscal year 1989. The PSEE account supports the development of market-oriented economies by mobilizing developing country human and capital resources. Key activities include support for trade and investment promotion, financial markets development, privatization, technology transfer and the efforts of many private voluntary organizations assisting in business development. Important contributions are also made to our energy activities, with an increased focus being devoted to energy efficiency. Without access to affordable and reliable sources of energy, businesses—regardless of size—are forced to slow and sometimes even cease production. As a result, economic expansion stalls. Equally important are the environmental activities funded through this account, which are targeted to managing hazardous wastes and tackling the problems associated with rapidly increasing rates of urbanization and industrialization. Programs which support human rights and democratic initiatives, worth $1.2 million, are planned to increase adherence to civil and political rights in fiscal year 1990.

Population.—We are requesting $201,600,000—or approximately 2 percent more than was appropriated in fiscal year 1989—to continue our leadership role in this important activity. Funds from this account are supplemented with other A.I.D. resources to provide temporary family planning methods to more than 10 million people in 94 countries. The basic thrust of our population program is voluntary family planning—providing a range of safe and effective contraceptive methods so that couples may choose the method appropriate for them. As in the past, we firmly oppose coercion and abortion as methods of population control.

Agriculture, Rural Development and Nutrition.—We are requesting $477,760,000 in fiscal year 1990 for this account, compared to an appropriated level of $493,715,000 in fiscal year 1989. These Funds will support a program that is focused on increasing the incomes of the rural poor. Our assistance aims to help families obtain food—either by producing it or through the marketplace. In addition to the alleviation of hunger, agricultural productivity traditionally results in higher incomes and, in turn, an increased demand for imports—both for agricultural and manufactured goods. This demand presents opportunities for U.S. exporters. Food production efforts are combined with a recognition that the natural resource base which makes agricultural growth possible must be protected for future generations. Most of the Agency's investments to protect the environment, including essential biological diversity activities, are funded from this account.

Health.—An increase is also being sought in our health account, requested at $125,994,000, or approximately 3 percent above the fiscal year 1989 appropriated level. Special attention is devoted to child survival and improved maternal and child health within this account. Four primary interventions are emphasized: immunizations against six major childhood diseases (measles, polio, diphtheria, pertussis, tetanus and tuberculosis), oral rehydration therapy (ORT) to prevent dehydration due to diarrheal disease, improved nutrition through enhanced breast feeding, weaning and growth monitoring and optimal birth spacing. Other important activities, such as water and sanitation projects and vector-borne disease treatment and control are also supported with these funds. Increased emphasis on child survival within this account has resulted in a reorientation of other health activities so that our programs are more sharply focussed on the critical health needs of children and mothers.

AIDS Prevention and Control Fund.—For fiscal year 1990, A.I.D.is requesting $42 million for this account, 5 percent higher than was appropriated in fiscal year 1989. Working in close cooperation with the World Health Organization's Global Programme on AIDS, A.I.D. has developed a policy and program to help prevent HIV infection and attempt to control the AIDS epidemic in developing countries. Our bilateral interventions are aimed at surveillance of HIV spread, increasing awareness and understanding of the disease and promoting behavior changes through public education, preventing the spread of HIV through blood transfusions, assisting in the availability and distribution of condoms and supporting research to ensure that these programs are effective and sustainable. Our efforts are concentrated on where the virus is and in controlling its spread.

Child Survival Fund.—Supplementing the work performed with resources from our health account, we are requesting the same amount as was appropriated in fiscal year 1989, $71 million, for the CSF account. Our strategy places primary emphasis on ORT and immunization because approximately half of the 15 million childhood deaths in developing countries can be traced to diseases which can be prevented by vaccines or rehydration therapy. As the availability of these services expands, emphasis will also be placed on the creative use of modern communication strategies to increase demand for these services and education on their use. The two other components of our strategy—birth spacing and nutrition packages—are equally vital to the health and survival of children in the developing world. These programs are reinforced with resources from other accounts, such as Health, DFA, and ESF.

SPECIAL ASSISTANCE INITIATIVES

Our request contains a new account to provide funds in support of newly emerging democracies which undertake difficult economic adjustment programs. The $200 million requested in fiscal year 1990 is for the Multilateral Assistance Initiative (MAI) for the Philippines—an affirmation of our commitment to President Aquino and her new government. The strategy being developed with the government and other donors is to strengthen the Philippine reform process by encouraging private sector growth, improving the government's ability to utilize donor assistance more efficiently, to rehabilitate and develop basic infrastructure and to improve the delivery of social services.The MAI is a multi-donor effort, thereby allowing the United States to stretch its limited development assistance dollars by combining our resources with substantial flows from other bilateral, multilateral and private sector sources. Our objective is to accelerate the pace of reform which President Aquino has already begun and to reaffirm our strong commitment to the development goals of one of our key allies in the pacific region.

CONCLUSION

The development assistance resources we are requesting for fiscal year 1990 will provide the funds necessary to carry out our economic development goals. Our best efforts will be devoted to using these resources effectively. Nothing less will serve the millions who struggle to pull themselves out of poverty and want.

Mr. Chairman, I will be happy to take your questions.

REMARKS OF SENATOR KASTEN

Senator LEAHY. Thank you. I talked earlier about Senator Kasten's involvement in this subcommittee over the years. Bob do you have anything you wanted to say before we started?

Senator KASTEN. Mr. Chairman, thank you. I just want to say Alan, it is a pleasure to have you testify this morning and I think you have done an outstanding job in your tenure as the Administrator of AID and we look forward to working with you further. Thank you, Mr. Chairman.

Senator LEAHY. Thank you. Senator DeConcini?

Senator DECONCINI. I have no opening statement. Thank you, Mr. Chairman.

DEVELOPMENT AND THE NATIONAL INTEREST

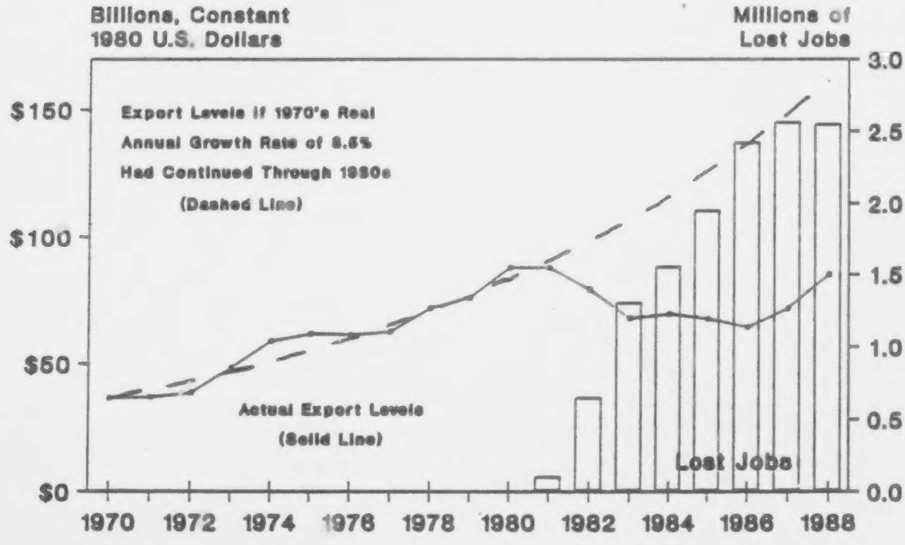
Senator **Leahy**. Until this year the United States had been the largest aid donor in the world, now Japan has overtaken us. I have looked at some of the things we have been so proud of—the Marshall Plan, our support for President Aquino, and Ethiopia—as you mentioned earlier, it is a long list.

But now I think a lot of people are asking just what we are doing today with our foreign aid. When I found out last winter that I was going to become chairman of this subcommittee, I sat down and asked myself that very question.

Then I read your report, "Development and the National Interest." It contains an awful lot of information; it tells us how hard it is to rely on foreign aid to improve the lives of people in developing countries. In addition, despite billions of dollars in aid, the failure of their economies costs the United States billions of dollars in exports and millions in lost jobs.

This chart very graphically shows what happens as the economies of these countries hurt us in jobs and exports. The least-developed countries have become exporters of capital. Declining rates of economic growth accounts for millions of dollars in exports to them.

Loss in U.S. Exports to Developing Countries



Sources: IMF, Dept. of Commerce
Overseas Development Council

There is a reason I wanted to highlight this. It is very easy to say: "Let's get rid of foreign aid" and "what does it do for us?" Aside from some of the moral reasons why we ought to be providing aid as a nation, powerful and wealthy as we are, it makes sense that if the economies of developing nations improve, we put millions of Americans back to work.

But what if we look back over the past few years, what might we have done better? If we are going to shift some directions, where should we shift in the future?

Mr. WOODS. I want to address this issue directly, because I think it is critically important.

What the United States has done in economic development assistance over the years, in fact, has had a role in increasing U.S. exports to developing countries.

Our foreign assistance changed over time, beginning in the 1976–78 period. That is when a lag began in our exports to these countries, which contributed to job losses in the United States.

Two things are important to consider here. One, I think we have to ask ourselves whether Japan becoming the largest aid donor is in our own national interest, if I can use the title of my report. We gained great benefit from once being the largest aid donor, which transcends simply the amount of money that we have provided under the foreign assistance program.

Second, as this has occurred, the constituency for foreign assistance has narrowed, and generally speaking, no longer includes the U.S. business community. Very few businessmen, other than those looking for some kind of a mixed credit activity, come to me to complain about a contract that they didn't get in Egypt under our foreign assistance program.

I suspect that my experience is not greatly different from that of the members of this committee. I think it is important, as we look to the future, to acknowledge the role that our commercial interests, our economic interests, can play in developing economies.

Finally, in that same context, if you look to the year 2000 and beyond, you will see that our traditionally large export markets in Europe, Japan, and the like are mature markets. Those countries don't have growing populations. They are highly competitive with our own industries, which is reflected by increased products from these countries in our own domestic marketplace.

We don't know what the outcome of the European 1992 exercise will be, in terms of whether we will really see an integrated market or whether we will see protected markets and industry such as we have seen in agriculture.

The future commercial battleground is going to be the developing countries.

TRADE WITH DEVELOPING COUNTRIES

Senator LEAHY. You mean a battleground in the developing countries with the United States versus other industrialized nations?

Mr. WOODS. Exactly. And from the U.S. point of view, we have to ask ourselves, even though we have encouraged the Japanese to increase their foreign assistance, do we really want them to take first place and for us to be in second place?

Senator DECONCINI. Mr. Chairman, could we yield just to follow up on that? If you follow that argument out, the Japanese are increasing both their foreign assistance and their share of whatever market is there. Is this a fair assumption?

Mr. WOODS. Yes.

Senator DECONCINI. As we spend more, will they not still increase a greater amount of their market share? My argument is: is it really relative to compare the amount that you put in to development versus what you get out?

Mr. WOODS. The Senator is right, you can't make an absolute one-for-one kind of comparison. I wouldn't suggest that.

Senator DECONCINI. I don't know. It seems to me you have two different problems here. The first is there are many reasons why you do economic development, either because you get something back or because you are helping people. The other side of the story is that if you want to be aggressive trade-wise and sell to poor, Third World countries, you find out what they can buy and you find out how to finance it for your own interests. I suspect this is what the Japanese are doing. I have been told this but I don't know that it is a fact. I have been told this by Japanese, that is how they do it. They go out and market their stuff in these countries and we don't seem to do that.

Mr. WOODS. That is part of their program. Their aid program is more diverse than that and it is changing somewhat. We don't know what the future shape of the Japanese aid program is going to be.

Senator DECONCINI. The only reason I raise it is: if they put in triple or quadruple what they are already putting in, and we are good marketers, it is going to be an economic benefit to our country. We ought to get the benefit from this and also do these other humanitarian things.

Mr. WOODS. I am not down-playing the humanitarian aspects of foreign assistance. I am just saying that both from a U.S. economic point of view and from a constituency for foreign aid point of view, we have to give consideration to what our strategy ought to be in coming years.

Senator DECONCINI. Thank you, Mr. Chairman.

Mr. WOODS. Now, I haven't forgotten your question, Senator.

EVOLUTION OF FOREIGN AID

Senator LEAHY. That's all right. Please, all of us will have some very specific question, but this discussion is very, very instructive.

Mr. WOODS. Coming back to your question—could we have done things differently—that is a particularly hard question to answer because what we pursued at various points in time was based upon our knowledge at the moment. The decisions that we made, both in the Congress and the executive branch, were based upon what we thought we knew.

Our knowledge continues to increase, as you know. In fact, right now in the development area, it is increasing geometrically—almost to the point where we are having trouble conceptualizing. That is one of the reasons I wanted to start a dialog, a debate, and a discussion on foreign assistance, by publishing "Development and the National Interest." It is an effort to get a variety of people involved in discussions, which will lend substance to what our future program ought to be—both in terms of promoting sustainability and in terms of our political and economic stability interests.

I can sit here and try to secondguess why the earlier programs were put forth, but I am not sure that would be appropriate. I think the people that put those programs together based their decisions on what they thought would work at the time. I am not really begging the question.

Senator **Leahy**. I understand. It is not an easy question, but it is going to be one of the things that Senator Kasten and I are going to have to answer when we bring the bill to the Senate floor. There are bills that read with more enthusiasm.

Senator **Kasten**. All of them.

Mr. **Woods**. Yes; I frequently introduce myself as the man who runs the least popular program in the Federal Government.

Senator **Kasten**. And you run it well.

A U.S. CONSTITUENCY FOR FOREIGN AID

Senator **Leahy**. Yes; you run it very well. Let's go back to "Development and the National Interest" and the House foreign affairs report which, of course, we have all read.

When they put pictures on the TV screen of starving children in Ethiopia, when you see victims of the earthquake in Armenia, the natural reaction in this country is: God, let's help.

You and I had a number of discussions during your Department's operation with Armenia, which I thought was very, very good. You did a good job. You know all the different private and public groups. And I asked "What do we do to help?" The answer was to load up a plane and get aid out there.

But when we talk about foreign aid, it is very easy to get people who stand up and say "Wait a minute, money is going into the pockets of corrupt dictators and getting wasted." You can always guarantee that at some point on a slow news day, someone is going to bring up a foreign aid project which never got completed, or was mismanaged, or was wasted because a foreign government falls.

What can we do to turn around the perception that U.S. citizens have of foreign aid? How do you sell foreign aid? What should AID be doing on that? These are awfully broad questions, but how do you get the word out on that? By pointing out the successes or promising not to make the same mistake over again?

Mr. **Woods**. First of all, I think it is important, in order to have credibility with the American people, not just to talk only about successes but to admit your failures. They hear about them anyway. I think they have an intrinsic understanding about some of those failures. But let me return to one of the points you mentioned.

Money going in the hands of corrupt dictators is an interesting issue. It has been alleged that funds from AID went to President Marcos. Recently on a "60 Minutes" program it was also alleged that funds from AID went into the hands of politicians in Honduras. I consulted with our inspector general, who as you are aware is a tough customer, being a former marine deputy commandant.

He advised me that there has never been evidence about that kind of corruption occurring. There is virtually no evidence of this in the Philippines. Frustrated, I wrote "60 Minutes" after their show, pointing out that there has just been no evidence to indicate what they were alleging. I received a thank you for your kind letter response.

It is hard to fight that kind of thing.

Second, my view of how you sell foreign assistance to the American people is to put together a program with a central vision for foreign assistance that people can understand and accept.

Everybody wants people to be free from hunger. It is interesting that when you look at the things that the American people don't want to spend money on, the first one on the list is foreign assistance. On the other hand, if you look at the concerns the American people have, one of the greatest concerns is world hunger.

Senator LEAHY. Sure, as do I.

Mr. WOODS. And that doesn't match up.

Senator LEAHY. I want to yield to Senator Kasten but we will get back to this because I think there is a pervasive attitude that foreign aid is getting into some of the wrong hands. That is a real situation in Central America and other places. But we will get back to that. I will yield to my good friend Senator Kasten.

AID PROGRAM FLEXIBILITY

Senator KASTEN. Alan, let me ask you a couple of more specific questions. First of all, with regard to the Africa development fund, I think you will agree that the fund which was an idea that I, Senator Kennedy, and others were working on has been a success. And a number of sources that we have met with and talk to inside and outside the agency, say this experiment with more flexibility, has worked and may be worth expanding to other parts of AID.

I am also told that the so-called Hamilton task force is recommending that same kind of direction and flexibility.

I wondered if you would comment on whether you believe that we ought to take some of the principles of flexibility in the development fund for Africa and extend them out into other AID programs?

Mr. WOODS. First, we have been operating the development fund for Africa for just about 1½ years now. Based upon this brief experience I agree that it appears to be working well and successfully.

I was asked at one time by my friends at OMB why I didn't make a proposal in the 1990 budget to expand that type of program to other parts of the world. I told them that I wanted to have at least 2 years experience with the Africa program first. I know if I came up to Congress and proposed such an expansion, you would question me thoroughly. Basing my request upon 1 year of experience with the DFA would probably make it harder for me to sell.

So, I have been considering such a proposal for the fiscal 1991 budget. We are preparing the data to support that request now.

The House Foreign Affairs Committee task force on foreign assistance legislation, in fact, is taking an approach similar to that for the entire AID program—a nonfunctional account-type approach.

We think the development fund for Africa has worked very, very, well. We think we have accomplished some things with that flexible mechanism we could not have accomplished otherwise, not only in the economic sectors but in the social sectors as well. One of the things we are learning is that it is much more staff intensive than we originally thought it might be. We thought the flexibility would make it less so. However, it requires that we do a better job of planning at the beginning. Having done that means we are more likely to have successes at the end. That is, in fact, what is occurring so far.

Senator KASTEN. So your answer to my question is, yes, it is working and you are looking toward 1990 to make suggestions on having it brought on?

Mr. WOODS. Yes; and I have no objection if you would like to precede me.

ASHA APPLICANTS

Senator KASTEN. Good. The ASHA program has always been controversial and difficult to work, both for you and for us, but over the past couple of years, we have had a number of ASHA applicants complain that potential applicants are being denied even the proper application forms, and that, in effect, their programs have been prejudiced. They claim that certain institutions have been blackballed, and legislative mandates have been flaunted.

What is the story right now with ASHA? Are we, in fact, taking applications from all comers and are we trying to work through the process with all different groups?

Mr. WOODS. This issue has been raised with me and I have talked to my staff. The policy of the agency is—and if it has not been followed in the past, as has been suggested, it will certainly be the future—that anyone who asks for an ASHA application will be given an ASHA application. The fact that they have been given an ASHA application doesn't necessarily mean they are qualified for an ASHA grant.

Senator LEAHY. Many won't be.

Mr. WOODS. Some won't be, that's right. But the judgment on whether they are qualified or not will not be made before they have filled out their application applying for grants.

Senator KASTEN. I have not had an opportunity to speak to the chairman about this, and it may seem extreme but if a number of people have been denied the opportunity to apply and to work their way through the process, I think that we ought to consider at least suspending fiscal year 1989 funding disbursements and allow institutions which have been prevented from even applying to at least apply and get into the competition for funds. I don't think we are there yet.

Mr. WOODS. My impression was that the current problem essentially related to applications for fiscal year 1990, which are due back in soon.

UNFPA FUNDING

Senator KASTEN. I think it is both. Let's try to work with him. Jim says he thinks it is both also so let's try to work with it.

I want to shift now to another subject. As you know, we continue to read about some of the birth control, sterilization, and forced abortion policies in China and now in Tibet. Under current law, which I assume will continue to be in place, you were required to investigate any situation where an organization might participate in a program having these coercive elements and you also were required to ensure that no U.S. funds go to these kinds of programs. The United Nations fund for population activities continues to operate in China.

Can we assume correctly that you will determine that UNFPA will not be eligible for funds as long as they continue to participate in that coercive program?

Mr. **Woods**. Let me start out by quoting the Cabinet secretary from whom I take my policy direction under law. I refer to the Secretary of State, who when asked that question said: "The policy with regard to UNFPA and the China program was worked out in my office under my leadership and I see no reason to change it." That's the policy direction I have been given.

The decision then is not a question of whether the policy changes or not. That is law. The decision then is what the UNFPA is doing and what is happening in China?

That decision is a decision that we have to review every year and we will continue to do that.

As you know, the UNFPA has just renegotiated their agreement with the Chinese. We have not seen a final draft of that document yet. We are supposed to receive it some time this month. I can't really comment on what they have done until I see that.

But that is where we are right now.

CASH TRANSFER ASSISTANCE TO EGYPT

Senator **Kasten**. I have one final question on Egypt. As you know, over the years we have provided ESF funding to both Egypt and Israel based largely upon the Camp David accords. We recently learned that you are holding up a significant amount of funding because Egypt has not complied with certain IMF economic reforms. I think all of us support leveraging our assistance to at least some degree to promote economic reform but I am concerned about what is happening right at this moment with Egypt.

The aid is provided because of the Camp David peace accords and I think we have to recognize that we can't push these governments too far. We don't want to end up with situations in which we start to lose political stability.

When are you going to release the funds for Egypt? Can we expect that to happen relatively soon? And what kind of a relationship are we establishing and working for with Egypt?

Mr. **Woods**. First of all, I have seen two newspaper articles which irritated me.

Senator **Leahy**. You are lucky, only two?

Mr. **Woods**. On this subject.

Senator **Leahy**. I get two a day. Not from my hometown press, of course, but others.

Mr. **Woods**. These articles indicated that we were holding up the cash transfer portion of the Egyptian ESF program because of their lack of agreement with the IMF. That is not accurate.

I believe the law prohibits us from doing that, which is not an inconsequential consideration. As a policy matter, it has never been our policy to tie transfers to agreements with the IMF.

Obviously for Egypt, reaching an agreement with the IMF is an important part of their own economic circumstances, because it relates to their ability to reschedule loans for the Paris Club and so forth.

But that is not our policy. Our policy is that the cash transfer portion of ESF should be tied, and I believe this was in our report language, to substantial economic policy reform in Egypt.

ESF is appropriated as 2-year money. In fiscal year 1988 we did not provide a $115 million cash transfer to Egypt because no new economic reforms had taken place. The availability of that 2-year money, the $115 million, will expire at the end of this fiscal year.

Before the end of fiscal year 1989, if the Egyptians have made substantial economic policy reforms, we will release the $115 million as a cash transfer. If they have not done so, we have the option of projectizing those ESF funds. The funds themselves wouldn't be lost to Egypt but they wouldn't be transferred as cash.

Senator KASTEN. Well, I understand, and it is a matter of degree as to how much we tie our activities to the IMF. This is an effort that Peter McPherson was working on when he was administrator, and I know that you and others are working on this too.

I just think it is important to recognize the significant role that Egypt plays in the Middle East right now, the fact that they are a strong ally, the fact that they are working for peace through the Camp David accords.

And there is a degree to which we ought not to squeeze them further. And I think you are at that spot right now and I just hope that you and others are going to be very sensitive about that.

Mr. WOODS. Bear in mind, we are not talking about them not getting the money. We are talking about what form they get it in.

Senator KASTEN. I understand but you understand what I am saying too.

Mr. Chairman, thank you. Alan, I have some other questions that I would like to submit for the record but let me say that we really enjoy working with you. You have done an outstanding job and we look forward to continuing a strong relationship with you.

Mr. WOODS. Thank you.

CHINA'S POPULATION POLICY

Senator LEAHY. You were talking earlier about the UNFPA program. Am I correct that the administration will reexamine its funding if China addresses the U.S. concerns about coercion?

Mr. WOODS. That's the law.

Senator LEAHY. What happens if they do not adequately address it? Suppose China does not adequately address our questions there? Would you consider providing funding knowing those funds would go to China?

Mr. WOODS. In theory, yes. In practice, it is impossible.

Senator LEAHY. I look at that population chart and it scares the devil out of me.

Mr. WOODS. It does me, too. The problem is that money is fungible. The original administration position, when they came to the Congress on this issue, was to do exactly as you just suggested. I believe that Congress raised the issue that there was no way to actually ensure that our funds were not being used for this purpose. That's the problem. Quite frankly, we would like the circumstances to evolve where we could fund both UNFPA and a China program.

Senator **LEAHY**. I realize the difficulty, but I can't imagine putting ourselves in a worse position.

Senator **KASTEN**. Excuse me, Senator. Would you yield a moment?

Senator **LEAHY**. Sure.

Senator **KASTEN**. What we did, after trying to work through exactly what you said, we took the money that would have gone to UNFPA and it went to other family planning agencies. The total dollars spent on population planning were the same. We ended up giving it to, I can't remember, International Planned ParentHood or whatever, so the total dollars that would have gone to UNFPA went to other population planning.

Mr. **WOODS**. Yes; the funds still go to population activities.

Senator **KASTEN**. That is why we didn't have to worry about the funds.

Mr. **WOODS**. If I could add one other thing about population—it is probably worth mentioning and probably would not come up otherwise. In addition to the $201 million that you see in our budget for population activities, we also use funds from the development fund for Africa and ESF for voluntary population programs. So the total amount for voluntary population programs is really closer to $250 million, maybe a little bit above that.

Senator **LEAHY**. Senator DeConcini will submit questions for the record. He also has another hearing going on that he has to go to. Let's go back to the subject I was talking about earlier.

DEPENDENCY VERSUS DEVELOPMENT

We were talking about "Development and the National Interest" and you said that all too often dependency seems to win out over development. In other words, we are getting the opposite result of what we want.

There are a lot of reasons for this. The price of oil is something we have no control over. That made a tremendous difference. In some countries the price of oil is way up. In other countries the price of oil is way down, which made some difference.

But in which countries has dependency won out and why?

Mr. **WOODS**. I think dependency takes two forms. One is on a country level, as you suggest. Tanzania comes to mind. At one time, Tanzania received massive amounts of aid funds; I don't mean just ours. It was the country of interest and choice for many development programs at a certain point in history, to the point that these program masked what was actually happening in the economy. The Tanzanian economy seemed to be improving when it wasn't, in fact, because of the massive amounts of aid inflows. At the same time, the Tanzanian Government was making a whole series of terrible policy choices which were not sustainable.

There is another kind of dependency which occurs. There was a period of time when AID, for example—and a lot of other people have done this sort of thing, too—built a lot of health clinics. You can go to many of those health clinics today and see the buildings still standing, but they have no medicines or health professionals. Once our funding ended, there were no plans in place to support the operation of these clinics.

That type of aid program led to a kind of dependency in itself. If that type of activity was continued, we would have to fund these projects forever. Increasingly, we have come to appreciate that the sustainability of our activities is as important as anything else.

Senator LEAHY. There are a couple of questions that actually are related so bear with me. One is, if we go back to the question of what people will support, starving children for example—you can flash a toll-free number on the screen showing where to send donations and money will pour in. If the infrastructure is there and the political stability of the country in need is such, we can get the food to them.

Mr. WOODS. I have gone on television myself and asked people to send money to voluntary organizations.

LEVERAGING POLICY REFORMS

Senator LEAHY. And we do respond to that. But people get discouraged with foreign aid when they see reports of leaders of some small country with a fleet of private jets and extravagant homes funded by foreign aid money. This prompts demands for policy reform by aid recipients.

Why not just go ahead with the specific things, feed the hungry, get the earthquake relief, and forget the policy reforms and multilateral aid. Unless we can leverage those reforms? Are we whistling in the wind when we try to do that?

Mr. WOODS. I don't think so. I think there is another reason for us to be involved in policy reform activities.

In this business of development, the United States has always provided, as best I can remember, intellectual leadership. And that leadership has been very much followed by the multilateral institutions.

I will give you an example that isn't really in the reform area but which I am sure you can appreciate, and that is environmental sensitivity. We clearly—as a result of the activities of our environmental community, the Congress, and AID itself—are the established leader in the world in terms of dealing with international environmental issues. I am not suggesting that we are perfect, but we have had a large impact on other donors in that context, including the multilateral development banks.

I think the same thing applies in the area of policy reform. One very important thing has occurred in the 1980's, so important that it has even affected the Soviets.

We don't talk about the new economic order any more; nobody talks about the new economic order any more. That is passe. The realm of what is possible in terms of realistic economic policies has narrowed our focus substantially. I regard that as a U.S. success story, and one to which I give a considerable amount of credit to my predecessor.

So I think we have to be involved with policy. We have to find new techniques to do it and the development fund for Africa offers some interesting techniques in that respect.

Senator Kasten brought up the issue of withholding funds for Egypt to try to leverage policy reform. We don't do it that way in Africa. In Africa, our Economic Policy Reform Program represents a sizeable pot of money. Our aid missions, dealing with the host governments, develop growth-oriented programs which compete for parts of that pot of money based on how good the programs are.

Those programs affect not only the economic sector, as I mentioned earlier, but also the social sector. We have a major family health services program now in Nigeria, a formerly developed country, relatively speaking. As another example, we have had tremendous success with regard to agricultural production because of some fertilizer programs we designed in Cameroon and in Malawi. These are different programs, but basically represent a change from dealing with economic policy reform in the traditional sense. We have always provided leadership in this area. If we don't provide that leadership, I really am uncertain whether the other donors are prepared to pick up the ball.

Senator Leahy. You make a good point. We should go into that further at another time. Let me ask one last question and then I am sure there will be many questions for the record, not the least of which is the question of the 700 notifications of project changes each year that have to be made to Congress and the 288 separate reporting requirements. That is two a day, 7 days a week.

Mr. Woods. Is there any wonder why we are asking for operating expense budget increases?

Senator Leahy. Maybe what we want to do is make some changes in the reporting requirements.

SUDAN

My last question is this. Last year 250,000 people starved to death in Southern Sudan. That is one-half the population in my whole State. There are conflicts there, a whole lot of political unrest outside the control of AID. I saw some press reports that said the suffering may be worse this year because the food isn't getting to the people. They need it before the rains come and ground transportation comes to a halt. The United States is trying to prevent another famine there as we should.

The articles showed me how serious that situation is. Can we stop another massive waive of starvation again?

Mr. Woods. The Sudanese situation is very hard to get a handle on, particularly from one day to the next. The first time I had a real education of what was going on in Sudan was when I was in Ethiopia. It was 1 week after I was sworn-in to this job in 1987, and we were worried about a similar issue in Ethiopia at that time. Incidentally, one of our unrecognized success stories is that in 1988, we did not have a famine in Ethiopia. Despite all the difficulties we had with the war going on, we did not have to deal with massive starvation, or camps of displaced people, as we did in the mid-1980's. And it was because we had the infrastructure in place and all donors, not just the United States, were able to respond, and to respond quickly.

Sudan is more difficult. You quoted a number of 250,000 people dying in the Sudan. The reality is we just don't know. It may have been 250,000. It may have been 1 million. We just don't know. It is very hard to get that data.

We use what data we have, but we know it is very impressive.

Senator **Leahy**. This same article said that the United Nations has warned that as many as 100,000 Sudanese will die of starvation unless food is stockpiled in central and southern Sudan before the seasonal rain.

[The information follows:]

[From the Washington Post, Mar. 11, 1989]

Refugees in Sudanese Aid Camp Portend Famine

THOUSANDS FLEE SOUTHERN COUNTRYSIDE WHERE OFFICIALS SAY FOOD RESERVES ARE EXHAUSTED

(By Mary Batiatta)

MUGLAD, Sudan.—This time last year, there was no feeding camp here. This year, however, in an ominous pattern that relief officials say is emerging in more than a half a dozen towns throughout central Sudan, 150 more Dinka and Nuer tribespeople arrive here every morning. The camp's population has more than doubled in the past month, to more than 12,000.

In the town of Aweil, 200 miles south of here, more than 19,600 people arrived in the first half of February alone. Coming at a rate of more than 1,000 a day, that is a vast increase over the number who were present here by this time last year.

In Muglad, 400 miles south of the capital, Khartoum, the appearance of the newcomers is grimly familiar: bird-legged 7-year-olds who look no more than 3; women weeping for children who died of hunger or who were kidnaped by soldiers during their flight from the war-inflicted famine in the south. Asked why they have come here, they use a Dinka word, chok. It means hunger.

The movement of these people so early in the year, and so soon after the last harvest, is a stark warning, relief workers say, that all food reserves in the southern countryside have heen exhausted.

Unless a temporary cease-fire or permanent settlement to Sudan's six-year civil war is achieved before the seasonal rains begin next month, relief officials here say, the exodus out of the south will be even greater than that of last year's famine, which killed as many as 250,000 and displaced many more.

Such an exodus would overwhelm existing relief operations, which are still caring for more than 300,000 refugees who left the south last year.

"Theyll be coming in very poor condition in two month's time, and we'll not be able to cope with them," said one official. "The only answer is a settlement that will allow these people to go home."

For the moment, Muglad camp is holding its own. With the exception of the new arrivals, most of the southerners living here have recovered to reasonable health after several months of care by the private relief agency Irish Concern.

The provincial government authorities, who until very recently restricted the access of foreign observers here, today took visiting journalists on an extended tour of the camp. The tour was part of what they called the Sudan government's new spirit of openness and cooperation since the adoption earlier this week of a U.N. plan that would greatly expand relief work on both sides of the civil war.

The centerpiece of the plan is a so-called "month of tranquility," a temporary halt to the fighting that would allow relief agencies to move large quantities of emergency food in to rebel-held or besieged areas. The United Nations has warned that as many as 100,000 Sudanese will die of starvation this year unless food is stockpiled throughout central and southern Sudan before the onset of seasonal rains.

Indications in Muglad and other refugee areas, however, are that something more permanent than a "month of tranquility" is urgently needed. The new arrivals tell horror stories of being attacked on the road north by rebels and by militiamen armed by the government. Two weeks ago, the U.S. government began using Muglad as the staging point for a 1,000- ton, $1 million airlift of emergency food to Aweil. Nonetheless, at least 10 times that amount of food is likely to be needed in Aweil in coming months.

Further details of the U.N. plan were announced today in Khartoum. James Grant, executive director of the U.N. Children's Fund, said that Sudan Prime Minister Sadiq Mahdi had agreed today to help arrange large shipments of emergency food by truck and barge routes. Until now, those routes have been unusable because of the war and the inefficient bureaucracy of the Sudanese government.

The prime minister also approved Red Cross plans to expand its relief work from its current operation in three rebel-held towns to nine. That change required the approval of the rebel Sudanese People's Liberation Army (SPLA).

U.N. officials met this weekend in the Ethiopian capital Addis Ababa with the SPLA leadership. The rebels did not approve the U.N. plan, nor did they set a deadline for that approval.

Grant said the U.N. would move ahead with its relief plan in anticipation of rebel agreement with most if not all of its provisions.

SUDAN

Mr. Woods. We were the people that identified that problem and got people moving in that direction. We are, and will continue to work on the prepositioning of food.

We are also looking at some types of over-the-road transportation which we had previously not believed to be possible. It may, in fact, be possible to keep food flowing into certain areas that we have not been able to access before. We are investigating that and are working hard to get this delivery system in place.

Senator Leahy. Without help from the Government there.

Mr. Woods. That's right. What is going on there is what was going on in Ethiopia, a civil war.

Senator Leahy. I wanted to emphasize that. This is not because of a lack of will from this country.

Mr. Woods. There is a civil war going on. To make a point that you made earlier, when the American people see starving people in Ethiopia or Sudan or in Brazil—as was depicted on "60 Minutes" on Sunday night—they see terribly malnourished children and wonder what their foreign aid funds are going for. While I understand their compassion, alleviating these problems—directly fixing these problems—is not the sole responsibility of the United States. I am not suggesting that at all. But I think again it comes back to the intellectual leadership issue I talked about earlier.

I think the United States, as a nation, is in the best position to provide intellectual leadership, to develop the donor community more generally, and to develop solutions—which differ from country to country. In the case of Brazil, their economic policies simply do not allow the benefits to get down to poor people in that country.

Senator Leahy. I will submit all my other questions for the record.

ADDITIONAL COMMITTEE QUESTIONS

Senator Kasten. I will submit further questions also.

Senator Leahy. You will see a lot more questions. I think maybe the reason it is so easy to submit questions for the record here is because you are so completely accessible when any one of us has questions, we get the answers in a hurry from your office.

Thank you for being here.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

HELWAN HOUSING PROJECT IN EGYPT

SENATOR LEAHY: I would like a report on the Helwan Housing Project in Cairo, Egypt. In this report, please address the following questions:

When was the project designed, negotiated, and agreed to with the Egyptian government?

AMB. WOODS: The Project Paper, "Housing and Community Upgrading for Low-Income Egyptians," which outlined the design of the project in Helwan was approved on July 11, 1978. The Project Agreement between the United States and the Government of Egypt was signed on August 26, 1978.

SENATOR LEAHY: What were the terms of the agreement and what commitments were made by each party?

AMB. WOODS: The primary project objective was to demonstrate that basic housing and community facilities that are socially acceptable could be provided for low-income families at a price they are willing to pay and in a manner which would provide a substantial recovery of the Egyptian Government's investment.

The project, using both Government of Egypt (GOE) and A.I.D. contributions, intended to:

1. Construct a New Community to consist of approximately 7,200 housing units.
2. Upgrade up to six existing communities through provision of public facilities and infrastructure plus improvement of existing housing.
3. Establish a technical training center for craftsmen in the building trade.
4. Provide technical assistance and training in the fields of housing management, housing, land policy, and housing credit.

A.I.D. agreed to assist the GOE in meeting the costs of carrying out the project by providing a grant of not to exceed $80 million. This grant was to cover foreign and local currency costs of goods and services required for the project.

The GOE agreed to standard conditions precedent to first disbursement including a statement of the name of the persons acting as the Grantee's representative and evidence of an executed contract for technical assistance services for the Ministry of Housing's Implementation Unit. Conditions precedent to additional disbursement included evidence of an executed contract for design and supervisory services with an architectural and engineering services contractor, evidence of firm reservation of land for both components of the project, and evidence of formation of an implementation organization. The GOE agreed to provide not less than the Egyptian pound (LE) equivalent of $80 million (LE 56 million in 1978) including costs borne on an "in-kind" basis.

In addition, the agreement contained a special covenant which required the GOE to transfer title to, or permit occupancy of, any dwelling units constructed under the project when full and when operational utility services, including sewerage construction, had been provided.

The GOE also agreed to an implementation plan which outlined specifications for design, social and community development activities, support action of other ministries and GOE agencies, schedules for progress and completion of the project, model sales/mortgage agreements, a model improvement loan agreement, a financial plan and a project evaluation plan.

SENATOR LEAHY: When was actual construction begun, what was the original construction and occupation schedule, what is the current construction and occupation schedule, and when is the project expected to be completed?

AMB. WOODS: The Helwan Housing Project consisted of two primary types of activity with different schedules: community upgrading in squatter settlements and provision of sites and services for housing in the new community.

Community Upgrading

The activity designed to "upgrade" six neighborhoods in Helwan primarily settled by squatters consisted of construction of public facilities (schools and community centers) and local infrastructure (potable water and sewer connections as well as paved roads). In addition, a Home Improvement Loan Program was to provide funds for residents to improve or add to their existing homes and a Small Enterprise Loan Program was to provide credit to local businesses. These activities were originally scheduled to get underway in 1979 and were expected to be completed by the original project completion date in 1983.

Though implementation was delayed, construction of infrastructure envisioned under the project, with the exception of a wastewater collector now being funded by the EEC, is completed. Over 2,900 home improvement loans have been provided to residents in the upgraded areas and over $500,000 has been loaned to local business enterprises.

New Community Sites and Services

The New Community was originally conceived as a "sites and services" project which would provide essential utility connections (water, sewer, electricity, etc.) at a prepared housing site. In the initial stages of the project, plans were to include a "core unit" consisting of a single room which would be the foundation for a larger home ("build out") built by the owner using credit provided through the project. A.I.D.'s experience with sites and services projects elsewhere in the world indicated such projects were an effective means of providing shelter and basic services to low income beneficiaries at a low cost. Thus, a major project goal was to demonstrate an effective alternative to public housing which maximized the involvement of beneficiaries in designing housing to meet their needs and utilized private sector principles to recover costs incurred by the Government.

Originally, construction of "core" units was scheduled to start in April 1980 and be completed in June 1983. Beneficiaries would then receive their "core" units and complete construction of the ground floor to their own specifications using credit supplied through a local institution funded by the project.

Shortly after the Project Agreement was signed, however, a number of problems surfaced that delayed the start of the project by eighteen months. Host country contracting with architectural and engineering firms and organizations providing technical assistance took much longer than projected. A controversy arose over soil conditions and foundation designs. Disagreement over demonstration approaches caused further delay and concerns over implementation emerged. After the core unit design was tested, this approach was abandoned in favor of houses which were totally constructed by the owner and Government-constructed three-story walk-ups. Accordingly, the Executive Agency for Joint Projects (EAJP), the GOE counterpart agency with the Ministry of Housing, contracted with the U.S. contractor only for infrastructure works and utility connections (without core housing units) based on the understanding that all structures would be built by beneficiaries.

Actual infrastructure construction began in November 1983 with an expected completion date of May 6, 1986. However, it was not completed until March 1987, after which the GOE sold 1,150 full serviced plots in two neighborhoods to factory workers. A.I.D. financed construction loans to these plot owners who awarded construction contracts to seven private sector contractors. At this point direct A.I.D. involvement ceased. Actual construction under the direction of private owners is underway: to date, construction is 20% completed and completion is scheduled in August 1989.

EAJP plans to sell plots in three more neighborhoods upon receipt of funds required for the construction loans. Since A.I.D. funding of the project ended on August 26, 1988, the Ministry of Planning has approved the allocation of LE 10 million from jointly programmed special account funds managed by the Ministry of International Cooperation for this purpose. Actual disbursement of the funds to EAJP is expected soon. EAJP will then begin similar construction-by-owner programs in these areas. Construction should be completed prior to the end of calendar year 1990. Although A.I.D. direct inputs are complete, A.I.D. will continue to monitor the project and will follow-up on developments in the project until its overall goals are met.

In those areas where construction has been undertaken directly by the Government of Egypt, EAJP has begun construction of 4,900 flats in three neighborhoods. So far, 580 flats are completed, 345 flats will be completed in May 1989 and 380 more in July 1989. To date 170 families are living in the new community and more are expected to move in soon. The remaining flats should be completed by the end of calendar year 1990. A.I.D. has recently approved an EAJP Housing plan to continue construction of three-story walk-ups by the GOE in the remaining two neighborhoods. EAJP will seek financing from the Ministry of Housing for construction loans to build more flats for the target group.

SENATOR LEAHY: What were the original cost estimates of the project, what are the current estimates for completion of the entire project, and how much U.S. assistance funds have been expended or obligated to date?

AMB. WOODS: U.S. assistance to the project was estimated to be $80 million. Total U.S. assistance for the project will be $76 million; to date $75 million of U.S. assistance funds have been expended.

The GOE fulfilled its commitment to provide local cost financing in an amount equivalent to $80 million.

SENATOR LEAHY: What are the subsequent assignment, promotion and awards (including bonuses) histories of the A.I.D. Mission Directors, field project managers, A.I.D. Washington office level officials responsible for supervising the project, and responsible bureau assistant administrators during the life of this project thus far, from its inception?

AMB. WOODS: U.S. Direct Hire Officers who have served in Egypt and have been responsible for the Helwan Housing Project include the following project officers: Craig Noren, David Painter, Aaron Benjamin and Michael Keaveny. Directors/deputy directors responsible for the project include: George Hazel, Desmond O'Riordan, Fred Zobrist, Frank Miller and Hasan Hasan. A.I.D. Cairo Associate Directors include Richard Dangler, Gerald Zarr, Raymond Van Raalte and Fred Zobrist.

The A.I.D. Mission Directors have been Donald Brown, Michael Stone, Frank Kimball, and Marshall Brown.

Bureau Assistant Administrators include Joseph C. Wheeler, Alfred D. White, Antoinette Ford, Charles Greenleaf, Julia Chang Bloch and Carol Adelman.

We are presently developing a list of A.I.D. Washington office level officials responsible for supervising the Helwan project. We are also attempting to provide the additional information requested on promotions, awards and subsequent assignments. This information will be provided as soon as possible.

SENATOR LEAHY: What reviews (including internal A.I.D. audits and IG inspections or GAO investigations) of the project were carried out during the life of the project thus far, what problems or issues were identified, and what actions were taken?

AMB. WOODS: The project design included a mid-term evaluation which took place in February 1982. This evaluation was mainly directed at the New Community. The study concluded that:

-- The economic advantages projected to be achieved did not appear attainable--costs associated with housing units in the new community appeared to be higher than five-story walk-ups built by the GOE.
-- The time frame for implementation was unrealistic.
-- Though initial contracting problems had been settled, lack of mutually agreed upon or understood project objectives between A.I.D., the GOE, and contractors increasingly might become a problem.
-- Costs estimates did not involve changed building standards or innovative building technologies which were important project objectives.
-- Policy objectives need special attention beyond the effort to deal with day to day implementation to assure that the project accomplishes more than the limited goal of building houses. The study highlighted the need to address continuing disagreement about design standards and the concept of sites and services as preferable to multi-story walkups in providing a solution to low-income housing.

The mission reviewed the system in place for project management for ways of streamlining management functions and improving coordination between the organizations involved.

A review and analysis of several "build-out" options for housing units focused on pricing and marketing implications. Further efforts were made to clarify the sites and services concept for the GOE.

The implementation schedule was revised and plans were made to extend the project completion date.

The project was reviewed by the Assistant Administrator of the

Near East Bureau in 1983 as part of the approval process for extending the project completion date from June 1984 to December 1986. The project appeared on the Mission's "alert list" repeatedly from 1982 onward and was reviewed quarterly by top mission management in 1983 and again in 1987. In other years, the project was reviewed at least annually by top mission management as part of the regular ongoing process of portfolio review. The main problems and issues raised in these reviews are as follows:

-- The Near East Bureau Assistant Administrator questioned whether A.I.D. should continue with the project and asked for recommendations on a course of action. The project extension was initially not approved.

-- Implementation delays had been caused by management and staffing problems in the GOE project implementation unit, controversy over soil conditions and foundation structures, and lack of consensus on basic objectives.

-- Project budget reviews were needed to ensure adequate funding for all project components.

Agreement was reached with GOE counterparts that the original project objectives remained valid and only minimal core dwellings would be constructed in order to maximize private sector "build-out."

The soils-foundation issue was resolved and the pace of construction accelerated.

A.I.D. provided assistance to a new chairman in the counterpart agency whose reorganization and staffing improved contracting and compliance with A.I.D. procedures.

The project implementation schedule was revised and special emphasis was placed on completing a model housing estate that would demonstrate the underlying concepts of the project.

Based on evidence of improved project performance, indications of full GOE backing for the project, apparent agreement on project goals by participating entities, and analysis of the political and cost impact of deobligation, the Assistant Administrator approved an extension of the project.

A 1984 evaluation focused exclusively on the Upgrading Area was completed in 1985. The evaluation pointed out that the project had been successful in creating a consensus that upgrading informal settlements is an appropriate approach to urban development. It also highlighted as a major achievement the improvement and expansion of housing stock through the Home Improvement Loan program and noted excellent performance in reaching low-income groups, stimulating community involvement in upgrading activities, ensuring timely repayment, and contributing to training in building trades. The evaluation raised the following issues:

-- Problems in retaining mid-level staff of the counterpart agency had a negative effect on implementation.

-- The original implementation plan was unrealistic for an innovative activity. Work on physical infrastructure was far behind schedule.

-- The critical issue of legalization of land title was still an unresolved policy issue.

-- Cost recovery expectations were unrealistic given the target group but the upgrading project was likely to recover a higher percentage of costs than traditional GOE housing programs.

A.I.D. intensified its dialogue with the GOE concerning authority of the implementing agency to retain revenues, legalization of land title for the upgraded areas, increasing cost recovery levels and interest rates for shelter programs, and coordination of upgrading activities by local government.

Mission management determined that a further extension of the project completion date to August 1988 was necessary as some progress was being achieved. An attempt was also being made to achieve some of the project's major objectives. This extension was approved under the mission's delegated authority.

The Regional Inspector General's Office completed an audit report on the project which was issued on October 31, 1988. The audit looked at the total project and reported the following problems and issues:

- -- Project objectives had not been reached--after ten years of project activity no low income family had occupied a home in the new community.
- -- The project was characterized by inordinate delays and questionable management decisions;
- -- The criteria used to determine targeted beneficiaries is inconsistent with original intent and the housing may not be in the financial reach of the low-income groups originally targeted.
- -- The implementing agency could not retain funds collected from project beneficiaries for further project use as planned.
- -- Housing plans had not yet been developed for six of the 10 subdivisions in the New Community leaving the future of these areas in doubt.
- -- Completed infrastructure work could not be used. Sewer and water lines were not operational because there was no connecting system in place to discharge the waste.

The major recommendations of the audit report were:

- -- The A.I.D. Mission should prepare and provide for Agency-wide distribution a "Lessons Learned" Report.
- -- A.I.D. and the Implementing Agency should reexamine the income data and assumptions underlying the eligibility criteria used to identify the target group.
- -- A.I.D. should review and approve the Implementing Agency's housing plans for the remaining six subdivisions.
- -- The A.I.D. Mission should coordinate the issuance of a GOE presidential decree authorizing EAJP to open a bank account for the collection and use of project revenues.
- -- The Mission should consult with the GOE in addressing the problem of inoperable sewer and water lines to enable inhabitants of the six Helwan upgraded communities to use the facilities as soon as practicable.

A.I.D. will soon engage an appropriate person to conduct project history analyses and issue a "lessons learned" report. Eligibility criteria used in identifying the Helwan low income target group will also be examined.

A.I.D. has recently approved EAJP's Housing Plan for the remaining subdivisions of the Helwan New Community.

As a result of joint EAJP/A.I.D. efforts, a presidential decree officially establishing EAJP as a General Organization is expected soon. The decree will allow EAJP to retain revenues from loan repayment for use in a revolving loan fund. This action will assure continued access to credit for prospective homeowners in the project.

A.I.D. is periodically arranging follow-up meetings with all concerned parties to ensure that the sewer system is complete and put in operation as soon as possible.

Current A.I.D. Mission leadership is already applying some of the obvious lessons of Helwan:

- -- Project Implementation and AID assistance is phased to permit careful assessment of progress before the commitment to a new phase.
- -- Before initiating a new approach or project concept, the Mission assures itself that key GOE officials are in full agreement with the approach to be taken.

The "lessons learned" analysis will also be used to examine and strengthen the current management system. While these measures cannot assure problem-free project implementation, it will assist in avoiding past mistakes of the kind experienced at Helwan.

SENATOR LEAHY: What is the highest level of review the Helwan Project received within A.I.D.?

AMB. WOODS: The project was reviewed in Washington by A.I.D.'s Near East Bureau in 1983 when the Mission asked that the project's completion date be extended from June 1984 to December 1986. This extension was initially not approved; the Near East Bureau Assistant Administrator questioned whether the A.I.D. Mission should continue with the project and asked for recommendations on a course of action. Subsequent accomplishments and meetings between the A.I.D. Mission and the Egyptian Ministry of Housing apparently convinced the Near East Bureau that the project was again on track. The Bureau reversed its decision and extended the project.

During a visit to Egypt in October 1984, A.I.D. Administrator Peter McPherson held a meeting with the Minister of Housing, Mohsen A. Sidky, and discussed issues related to the Helwan project. Administrator McPherson also visited the project site.

A.I.D. OPERATING EXPENSES

SENATOR LEAHY: Mr.. Woods, I was struck by the size of your requested increase for A.I.D.'s operating expenses.

At a time when we are hearing calls from every quarter to streamline the A.I.D. bureaucracy, does it make sense to spend an additional $30 million for operating expenses?

AMB. WOODS: Since my arrival at A.I.D., I have initiated several actions designed to improve the overall management of the Agency. One of my first actions was to reorganize the personnel and financial management functions so as to begin overcoming serious deficiencies in these two operations. Last year I was required to submit Management Assessments of nine Washington offices or bureaus to the Congress. Many of the recommendations contained in the assessments have been implemented and others are under review. More important, I have expanded the exercise to conduct assessments of other Washington offices and bureaus. Other steps in process to improve management include a study by a recently created task force to examine ways of streamlining overall management operations of A.I.D., especially relating to contracting and procurement, financial management, personnel, and the programming process. I expect to receive recommendations from this task force within six months.

However, the above actions cannot succeed without adequate personnel to carry out necessary actions. The operating expense account is a people driven account, with close to 60 percent of the total appropriation going to pay salaries and benefits of our employees. Of the total increase requested for FY 1990, about $12 million is for higher salary costs resulting from the January 1989 Federal pay raise, increases in Social Security and FERS costs, and increases in other benefit costs such as health insurance.

The second largest area of increase is $11 million for the expanded FAAS system. Beginning in FY 1990, as required by Congress, A.I.D. and other agencies will have to reimburse the Department of State for many costs currently funded directly by the Department. As a result, the Department's FY 1990 budget request was reduced by $77 million, this amount being transferred to the various serviced agencies.

The remainder of the increase in the operating expense request is to provide for improved training for A.I.D. employees to enable them to better manage the changing foreign assistance program, and for increases in rents, utilities, travel, and other such costs as a result of inflation in the U.S. and overseas.

MONITORING WEAKNESSES IN A.I.D. PROGRAMS

SENATOR LEAHY: A recent GAO report (NSIAD-89-61BR) concluded that monitoring weaknesses have become endemic to the U.S. bilateral assistance program, directly contributing to weaknesses in accountability and control and reducing the effectiveness of assistance programming. A.I.D. officials attribute these monitoring deficiencies to limited direct-hire staff resources while the GAO analysis indicates that inadequate information and reporting systems for key program activities (e.g., host-country contracting and participant training), also have directly contributed to monitoring limitations.

What is your response to this GAO analysis and what are you doing to correct the monitoring weaknesses identified in the GAO report?

AMB. WOODS: I place very high priority on the management dimension of our work, and in striving for excellence in our program management, so I certainly recognize the need for adequate monitoring. Both the reasons you mention have contributed to monitoring weaknesses. When you have a situation where fewer staff are responsible for overseeing a larger and more varied portfolio of projects carried out in an increasing number of countries, you are going to have difficulties in monitoring. So we have to tackle the problem at its roots. At the same time, we have been developing and putting into operation information and reporting systems that will lead to substantial improvement in our monitoring capabilities, on two levels. First, we will be introducing this year a new, more comprehensive Agency coding system to track activities and special interests (e.g., microenterprise, basic education, forestry, child survival, women's involvement, etc.), no matter under which (or how many) funding accounts they fall. This should greatly strengthen our internal accountability and control. Second, at the level of specific projects and programs, we have been providing technical support to Missions in creating practical information systems tailored to their management needs. Finally, let me assure you that we are continuing to give high priority to effective and accountable management of the program.

THE ROLE OF UNIVERSITIES

SENATOR LEAHY: U.S. universities are increasing their activities abroad including research, training and technical assistance. In each of these areas, consulting firms, private companies and even other government agencies are increasingly asked by A.I.D. to respond to its needs.

What is the specific role that the universities should plan to fill in the next decade in working with A.I.D., and what commitment and support will A.I.D. make so that the universities can plan for this role?

AMB. WOODS: Universities have played a significant role in A.I.D.'s international development activities over the years. They have helped A.I.D. give major emphasis to training scientific, managerial, and other high-level personnel. Universities have been, and continue to be, one of the primary sources of relevant scientific research and technological advances in a number of development-related areas. A.I.D.'s work in agriculture, health and family planning has been greatly enhanced by the academic community's presence.

Those institutions with the interest, capabilities and capacity will continue to be an integral part of our program, both in the next decade and beyond. Our commitment is reflected in the fact that during Fiscal Year 1989, A.I.D.'s central Bureau for Science and Technology is providing nearly $9 million dollars specifically to strengthen the capacity at selected universities and colleges to effectively carry out development activities abroad.

A.I.D.'s commitment and support to the American institutions of higher education have been solid over the years and will continue. Participating institutions, for example, received nearly $236 million in A.I.D. funding in FY 1988.

ECONOMIC SUPPORT FUNDS

SENATOR LEAHY: Last June the GAO issued a report critical of various aspects of the ESF program. Specifically, GAO found that A.I.D.: (1) relied on cash transfers to encourage economic policy reforms and to address balance-of-payment problems; (2) did not establish sufficient criteria to guide its policy reform efforts; (3) did not verify that recipients complied with its requirements to keep records on separate account disbursement or ensure that they used the funds for authorized purposes; (4) had problems in implementing separate accounting for cash transfers, since recipients continued commingling program funds with foreign exchange accounts. I understand that no action has yet been taken to rectify this situation?

Why have you not taken steps to ensure that A.I.D. implementation of separate accounting is consistent with congressional intent and that all recipients maintain all ESF cash grants, not just those termed cash transfers, in separate accounts?

AMB. WOODS: A.I.D. has taken steps to ensure that our implementation of separate accounting is consistent with Congressional intent. All ESF cash transfers are now maintained in separate accounts. One step which A.I.D. has taken to ensure this is to incorporate this requirement into the annual Internal Control Assessments performed by the Agency. Each year, in accordance with the Federal Manager's Financial Integrity Act, A.I.D. conducts these Internal Control Assessments. Beginning in 1988, evaluation and testing of internal controls over cash transfers have been conducted. Each year missions must verify that all ESF cash transfer dollars are deposited into a special account and not commingled with other funds. Missions must also verify that the cash transfer assistance agreements they have executed describe the general uses of the dollars and provide for adequate monitoring and audit rights, substantive reporting by the recipient, and dollar redeposit or other remedial action in cases of non-compliance with the agreement on uses.

Another step which A.I.D. has taken is to initiate a review to clarify our policy on sector assistance, to ensure that cash transfers are not provided under the guise of sector assistance. I instructed my staff last summer to develop more concrete guidelines on what constitutes sector assistance and how it is distinguished from cash transfers. Those guidelines are now in the final stages of review and should minimize the risk of "cash transfer-like" sector programs being approved. Congressional intent as we understand it authorizes the use of both the cash transfer type of programming and the sector assistance program. In fact, ESF cash transfers can be used to support a sector assistance program. Such cash transfers are required to be put into a separate account. I prefer to view sector assistance as separate and distinct from cash transfer assistance, both conceptually and in terms of how disbursements are made.

SENATOR LEAHY: Why have you not taken steps to ensure that all separate cash transfer accounts be independently audited once every three years?

AMB. WOODS: A.I.D. requires host governments to retain records on all disbursements from separate accounts for three years, and they must periodically report to A.I.D. on the use of these funds. The GAO report of last June specifically recommended that A.I.D. "ensure that all cash transfer separate accounts be independently audited once every 3 years." A.I.D. responded that we will be able to audit these separate accounts every three years. Arranging for and supervising such audits are the responsibility of the Office of the Inspector General.

SENATOR LEAHY: How can A.I.D. maintain accountability in cash transfer programs when it cannot avoid commingling cash transfers with other foreign exchange?

AMB. WOODS: As noted above, each mission must verify on an annual basis that ESF cash transfer dollars are not commingled with other funds. These annual checks have demonstrated that A.I.D. has reached overall compliance with the current requirements. A.I.D. has issued specific guidance on how to use cash transfer dollars without commingling them. A.I.D.'s guidance emphasizes tracking the dollars without imposing unnecessary restrictions in countries which are removing restrictions on foreign exchange transactions.

PHILIPPINE AID LEVELS

SENATOR LEAHY: The FY 1990 request for Philippine assistance includes $200 million for direct military assistance, $160 million in Economic Support Funds, and only $55 million for Development Assistance. Given the serious social and economic problems besetting the Philippines, do you feel this proportion of development to security assistance adequately reflects the priorities of the country? Please explain.

AMB. WOODS: The $160 million in Economic Support Funds included in the FY 1990 request for the Philippines will be used for economic development. This includes budget support associated with economic and administrative reforms, infrastructure development and local government support. Together with the $55 million Development Assistance, $41 million P.L. 480 resources and the $25 million Housing Investment Guarantee, and the Administration request of $200 million in FY 1990 for the Multilateral Assistance Initiative for the Philippines, the United States requests $481 million for economic development in the Philippines. This proportion of development to security assistance reflects the Administration's deep commitment to address the social and economic problems in the Philippines.

RENEWABLE ENERGY EXPENDITURES

SENATOR LEAHY: Does A.I.D. have a plan for evaluating the potential application of renewable energy technology as a regular part of its development strategy for sub-Saharan Africa?

How much did A.I.D. spend last year on renewable energy projects and how does this compare with prior expenditures?

How do these current expenditures compare with current expenditures for bio-energy and conventional fuels?

AMB. WOODS: In all regions, including Africa, A.I.D. is encouraging the use of renewable energy systems to support rural and urban development where such technologies are socially, technically, and economically viable. Consistent with the directive contained in the FY 1989 appropriations act, we have included instructions in our FY 1990 Country Development Strategy Statement (CDSS) guidance for missions to place high priority on the development of renewable energy projects. In these efforts A.I.D. is working with U.S. industry and promoting private sector involvement to assure infrastructure support in developing countries.

Examples of specific renewable energy projects now underway include $32 million in Egypt; $5.6 million in Sudan; $7 million in India, and $9.7 million in Morocco, each project emphasizing in varying degrees wind, solar, photovoltaics, biomass, household fuels, and technology assessment. In addition, A.I.D. is widely disseminating information on renewable energy systems and their applications.

A.I.D. expects to obligate $9.0 million for renewable energy projects in FY 1988, about the same level as in recent years. The amount spent in FY 1988 on energy from biomass was approximately $2 million and with an additional $8.5 million for projects to increase fuelwood supplies.

The Plan for Supporting Natural Resources Management in Sub-Saharan Africa (PNRM) provides for conducting natural resource assessments, including the potential for renewable energy, in priority Sub-Saharan countries. A major element of almost all of A.I.D.'s Sub-Saharan African natural resource and energy projects involves evaluating, in one way or another, potential renewable energy technologies, particularly those involving the production and management of bio-mass. Most Sub-Saharan African natural resources projects have a major forestry, agroforestry or fuelwood production element.

PHILIPPINE CLARK AIR BASE EXPENDITURE

SENATOR LEAHY: Ambassador Woods, in reading through a document prepared by A.I.D. entitled Advice to the Congress on Revised Active and Proposed Projects for FY 1989, I noticed that $5 million has been authorized for access and feeder roads to Clark airfield in the Philippines (Project number 4920348).

Can you tell me why, at a time of fiscal austerity, A.I.D. is building roads for a U.S. defense facility?

AMB. WOODS: The Clark Access and Feeder Roads Project (492-0348) was completed in FY 1988 and is not scheduled for any additional funding.

SENATOR LEAHY: Should not this expenditure more properly fall under the Department of Defense account and not paid for out of scarce foreign assistance funds?

AMB. WOODS: The Clark Access and Feeder Roads Project provides access to former baseland that had reverted to Philippine Government jurisdiction under the terms of the 1979 amendment to the 1947 Military Base Agreement. The reverted baseland area serviced by the 12 kilometer access road has been identified for economic development by the Government of the Philippines. Neither the former baseland nor the access road serves a military purpose either for the United States or the Philippine Government.

SENATOR LEAHY: Could you please provide me with a list of all A.I.D. projects, and their amounts, which use development funds and involve, complement or enhance defense facilities?

AMB. WOODS: A.I.D. funds, including Economic Support Funds and Development Assistance, allocated to the Philippines are not used, and have not been used, for military purposes or facilities.

JORDAN INCOME TAX ASSISTANCE PROGRAM

SENATOR LEAHY: Mr. Woods, in reading through a document prepared by A.I.D. entitled Advice to the Congress on Revised Active and Proposed Projects for FY 1989, I noticed that $2 million has been authorized for a project in Jordan (number 2780247) to provide income tax assistance.

What is this project and is it the normal practice of the Agency for International Development to provide foreign nationals with income tax assistance using U.S. taxpayers' dollars? If so, how might I and my staff apply?

AMB. WOODS: First, I wish to clarify that the project was authorized in FY 1981. The project received its last obligation in FY 1984 and its last expenditure was in FY 1988. It ended September 30, 1988.

The project's purpose was to help the Government of Jordan implement its tax reform program of 1982--designed to improve revenue collection and thus reduce Jordan's budget deficit. The project was primarily an institution building effort involving technical assistance under a Participating Agency Services Agreement with the U.S. Internal Revenue Service, along with some short-term participant training. The project helped Jordan's

Department of Income Tax automate processing and cross-checking of tax returns. A self-assessment tax system was successfully developed and fully implemented, thus replacing the more onerous presumptive tax system (an arbitrary tax liability assessment system), which was a major goal of the project.

A.I.D. policy is the same today as that underlying the Jordan project in 1981. In appropriate situations, where a deficient tax administration system, for example, is a significant element in a country's recurrent cost problem, A.I.D. might provide technical assistance to help the host government involved improve that system. A.I.D. does not provide income tax assistance to individual foreign nationals with respect to their tax liability to their own government.

A NEW LOCUST PLAGUE ON THE HORIZON

SENATOR LEAHY: According to reports I have received from the Office of Foreign Disaster Assistance, a major locust swarm may be developing in the empty quarter of Saudi Arabia and may emerge sometime in the next four to six weeks. If the swarm does emerge, it is expected to sweep into north and west into Jordan and the Sudan. If carried on the prevailing winds, one of our allies, Pakistan, may be severely affected.

What have you done to prepare for this potential invasion of locusts and have all the necessary parties, governments and international organizations been notified and presented with a plan for action?

AMB. WOODS: The reports referred to were based on the fact that in late 1988 a number of desert locust swarms escaped from Sudan's Red Sea Coast to Saudi Arabia. Subsequently, swarms apparently coming from Saudi Arabia entered Jordan, Kuwait, United Arab Emirates and Bahrain. These facts, taken together with a lack of detailed locust reporting from Saudi Arabia led to entomologists' concern about the situation there.

In view of this concern, a number of timely actions were taken, both by A.I.D. and FAO, to obtain more accurate information on the locust situation in Saudi Arabia and to prepare for possible invasions into neighboring countries. First, A.I.D. alerted all U.S. Embassies in the region, requesting reports on locusts in their respective countries. Information from these reports has been very helpful and was exchanged with FAO officers in Rome. Second, A.I.D. attempted to send a senior locust officer to Saudi Arabia to survey the situation. Although he was not given permission to enter Saudi Arabia, a prominent FAO entomologist did gain entry and toured the country extensively. His findings were that the Saudis had controlled the invading locusts quite well and are well prepared to treat any second-generation locusts which will appear. He does not expect the escape of large numbers of locusts either to Sudan or to the north (Jordan) and east (Pakistan). Third, A.I.D. contracted for and provided the FAO expert with satellite vegetation maps of the Arabian Peninsula, to assist him in ground surveys. Finally, A.I.D. arranged for him to brief U.S. Embassy personnel at three points during his tour. These reports have been transmitted to U.S. Missions in all potentially affected countries.

In addition to the foregoing, an A.I.D. entomologist surveyed areas of the Yemen Arab Republic and two FAO entomologists visited

Jordan. A.I.D. has positioned two spray aircraft in Jordan and is providing technical assistance in the event swarms do reach Jordan. USAID/Pakistan has allocated $2.0 million for pesticides and other necessary inputs. Entomologists now believe that any locusts escaping into Pakistan should be well within the capacity of Pakistan's Crop Protection Service to handle. In Sudan, an A.I.D. financed entomologist is currently working with the Sudan Crop Protection Service to plan a Red Sea Coast survey program that would provide sound information on the extent of westward locust migrations from Saudi Arabia, if any occur.

SENATOR LEAHY: Why has Saudi Arabia staunchly refused to allow any ground or aerial surveys of its territory to determine the extent of a possible locust swarm?

AMB. WOODS: We do not know why Saudi Arabia's Ministry of Agriculture refused permission for the A.I.D. entomologist to conduct a locust survey despite diplomatic approaches by our embassy in Riyadh. However, the thorough reporting we received directly from the FAO entomologist, who was well-received by the Saudis, combined with other relevant information such as weather reports, leads us to believe that the potential for large swarms escaping from Saudi Arabia is not now a matter of serious concern. However, A.I.D. will continue to monitor weather conditions and to maintain present close communication with FAO and U.S. Missions in the area until about mid-June, which is the end of the locust season in the Arabian Peninsula.

SENATOR LEAHY: What effort are you making to persuade Saudi Arabia that it is in their interest, and the interest of regional food security, to assist in the survey effort?

AMB. WOODS: At this point, in view of the survey information which has been made available, I do not think any additional steps are needed.

PHYSICALLY AND MENTALLY IMPAIRED

SENATOR LEAHY: In its report last year, this Committee directed A.I.D. to look at the selection criteria for ASHA with the objective of expanding it to include institutions which assist the physically and mentally impaired. The Committee expected ASHA's response no later than December 1, 1988. Today is March 16th and no response has been received.

When might the Committee expect a response to its report issued on June 22, 1988?

AMB. WOODS: A.I.D. has only recently reached agreement concerning this matter. A report will be issued in the near future. A.I.D. has determined that institutions which assist the physically and mentally impaired are eligible to participate in seeking assistance from the American Schools and Hospitals Abroad (ASHA) program provided they otherwise meet the requirements of Section 214 of the Foreign Assistance Act and existing program criteria. I believe it would be inadvisable to change the existing criteria to specifically include -- or for that matter to exclude -- institutions with distinctive educational and medical specialties.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

COMMODITY IMPORT PROGRAM IN EGYPT

SENATOR INOUYE: A September 1988 GAO study found that several Commodity Import Programs, most notably those in Egypt and Pakistan, were not fully consistent with A.I.D's development strategy because at least half of the commodities were provided to government-owned enterprises at subsidized prices (GAO/USAID-8-209). It is my understanding that A.I.D. considers subsidies detrimental to development because they reduce the pressure on these entities to set product prices at market-determined levels. Moreover, the program in Egypt financed some commodities and activities of questionable developmental value.

Why have you not yet taken any action to implement the recommendations made by the GAO to extend greater financial control over the CIP program in Egypt so as to bring it in line with accepted A.I.D. developmental strategy and audit practices?

AMB. WOODS: The A.I.D. program in Egypt has attempted to be consistent with A.I.D. policies, both by maintaining a policy dialogue on elimination of public sector subsidies and promoting a strong private sector to replace public sector industries. The Commodity Import Program (CIP) has been an important part of this strategy. From FY 1975 to FY 1986 the Egyptian Commodity Import Program (CIP) was almost entirely with the public sector. In FY 1986, the public sector program was reduced and a $50 million commodity import program for the private sector began. The CIP program in Egypt is now equally split between the public and private sectors.

A.I.D. has made a concerted effort to support private sector initiatives in Egypt. In an effort to better meet the needs of the Egyptian business community, modifications to the private sector CIP have recently been negotiated. Recent changes include: raising the annual ceiling for end-users and traders and offsetting the higher cost of U.S. shipping. CIP transactions have also supported specific policy reforms. For example, A.I.D. has used the CIP to raise the price of corn to free market levels by conditioning CIP corn imports to incremental price increases.

CIP commodities are not provided to public enterprises at subsidized prices. Commodity purchases are made at regular market rates under both the public sector and private sector programs. In late 1987, the Government applied a new market oriented bank exchange rate to both public and private sector CIP transactions, thus further equalizing the treatment of public and private industries. A.I.D. maintains an on-going policy dialogue with the Government which emphasizes the elimination of public sector subsidies as well as those governmental policies that hinder the private sector. A dialogue continues on privatizing selected public corporations.

Commodities of questionable developmental value often have been influenced by U.S. export interests. In one example, A.I.D. sought to exclude a commodity used to produce cigarette filters on the grounds that the commodity had little or no developmental value. However, "pressures" brought by U.S. export interests forced A.I.D. to retract its objection.

Tighter implementation control measures have been instituted.

A new tracking system provides a clear link between obligations, commodity receipts, and local currency deposits allowing for careful scrutiny of the process.

SENATOR INOUYE: Will you be requiring A.I.D. missions to independently verify, on a sample basis, host government reports on the uses of local currencies?

AMB. WOODS: Each year, in accordance with the Federal Manager's Financial Integrity Act, A.I.D. conducts Internal Control Assessments. Beginning in 1988, evaluation and testing of internal controls over local currency funds have been conducted. Among the control techniques to be assessed by the overseas missions each year is that the USAID verifies, on a sample basis, host government reports on the uses of local currency. Thus, verifying host government reports on local currencies will be required of all A.I.D. missions from now on.

SENATOR INOUYE: Will you support the development, in Egypt, of a plan to liquidate the accumulation of local currency funds and program future generations of local currencies for development at a pace more commensurate with the rate that they are deposited?

AMB. WOODS: A.I.D. Mission in Cairo has reached agreement with the Government of Egypt (GOE) to withdraw funds from the local currency account at a rate which will ensure a steadily declining balance in the account. Efforts will be sustained toward an orderly draw-down of funds while at the same time ensuring their productive use. In FY 1988, more funds were withdrawn from the account than were deposited. Specifically the following figures summarize the activity in the account:

Balance at the Start of FY 1988	LE 580.8 million
Deposits during FY 1988:	LE 484.5 million
Withdrawals during FY 1988:	LE 665.6 million
Balance as of 9/30/88:	LE 399.7 million

More than one half (LE 380 million) of the funds programmed in FY 1988 were allocated to budget support of GOE ministries involved in development activities. This is in conformance with A.I.D. policy guidance. The remaining withdrawals were allocated primarily to projects directly associated with the A.I.D. program. In addition, a relatively small amount went to pay local currency costs for A.I.D. operations.

Negotiations leading to an FY 1989 agreement are not completed. However, estimated deposits and withdrawals are as follows:

Balance at Start of FY 1989:	LE 399.7 million
Estimated Deposits:	LE 409.5 million
Estimated Withdrawals:	LE 664.4 million
Estimated Balance 9/30/89:	LE 144.8 million

Local currency funds in FY 1989 will also be programmed for budget support, project support and local costs in support of A.I.D. operations.

SENATOR INOUYE: How have the lessons learned in Egypt and Pakistan been applied in other parts of the world? The Philippines?

AMB. WOODS: Several of the lessons learned in Egypt and Pakistan can be applied in other countries, although we do not have a CIP in the Philippines. For instance, a commodity import program can be very useful in effecting policy reforms, particularly in the area of private sector encouragement. Also, efforts are under way to standardize CIP accounting practices, thereby greatly facilitating the task of program auditing.

ALLEGATIONS OF DISCRIMINATION

SENATOR INOUYE: As you know, there have been numerous allegations that officials of the ASHA program have ignored congressional mandate in administering this program and have dealt unfairly, and often abrasively, with applicants. This Committee has been made aware of such abnormal practices and has expressed its concerns to you. Yet, several years after the first inquiries, allegations of discrimination and unprofessional conduct continue to be brought to our attention.

Are you able to assure this Committee that the concerns it raised in its report last year have been addressed and that all applicants to the ASHA program are being treated fairly, without prejudice, and in keeping with the broad, inclusive criteria applicable to the program?

AMB. WOODS: The number of inquiries as well as applications for assistance to the ASHA program far exceed the program's ability to respond favorably or to the extent desired. There are and will continue to be cases where we will find applicants ineligible or unmeritorious, or where we will have inadequate funds to support all meritorious applications. In such cases, I hope I can count on your continued understanding and support. I can assure you that all parties interested in ASHA assistance will be treated fairly, will be provided the information they need as prospective applicants and also will be furnished application forms on which to make their case.

ADDITIONAL PERSONNEL

SENATOR INOUYE: What steps have you taken to assign additional personnel to the ASHA Office as recommended by this Committee in its report last year?

AMB. WOODS: In my opening statement I emphasized the need for improving management and implementation of our programs as one of my highest priorities. It is for this reason that I have asked for an increase in our Operating Expense budget for FY 1990.

My staff is currently reviewing our programs across the board to identify those areas most in need of management improvements prior to my making final decisions on organizational changes. In the interim, additional funds have been allotted to the ASHA office so that they may contract out on an ad hoc basis for appropriate assistance.

We are becoming shorthanded in several areas; once my staff review is completed and I have an actual budget to work with, I will be in a better position to advise how we will be able to respond to the management issues in the ASHA office in the long term.

A.I.D. REORGANIZATION

SENATOR INOUYE: It has been 18 years since the A.I.D reorganization plan commissioned by President Nixon was released. At the time, critics of the U.S. aid program observed that we had outgrown the Foreign Assistance Act of 1961, and noted that the United States had receded from its earlier position as the majority foreign aid donor. The growth of multilateral financial institutions, more development minded Third World bureaucracies, and increased private direct investment, only made this change inevitable. That was 18 years ago. Yet, we still have the Foreign Assistance Act and the United States is still viewed as a principal force in the drive for development.

In light of the unfulfilled promises of nearly a generation ago, why should we believe that the widespread cry for change in, or abolition of, the Foreign Assistance Act of 1961, are more than just a distraction from the job of implementing more effectively current legislation?

AMB. WOODS: I assure you that the current widespread interest in reviewing and restructuring the Foreign Assistance Act of 1961 is not just an exercise in distraction but a sincere effort on the part of the Congress and this Administration to ensure that the U.S. foreign assistance program continues as an important force in development. The House Foreign Affairs Committee Task Force, under the able leadership of Congressmen Hamilton and Gilman, along with A.I.D.'s own report, "Development and the National Interest," as well as a number of other private studies (MSU, Phoenix) have each provided strong arguments for the need to rethink our foreign assistance program.

As we point out in our report, there is a great deal of change and transition currently occurring throughout the world. I believe that foreign aid has been associated with some improvements in human welfare, however, it has not systematically fostered the kind of broad-based economic growth that will be required if improvements in human welfare are to be expanded upon and sustained over the long term.

All of the reports on U.S. Foreign Assistance reflect a consensus that development is an extremely difficult and long-term effort. Current problems, particularly having to do with debt burdens and environmental degradation, have served to compound the complexities involved in creating sound, sustainable development and growth. It is therefore crucial that the U.S. foreign assistance program have the flexibility to meet the ongoing and current challenges. Moreover, our program must reflect the reality of a severely constrained budget environment here at home. Many of the recommendations in the various studies and reports now circulating are sensible and have commanded broad support, such as the need for increased flexibility through the deletion of earmarks and the elimination of functional account restrictions.

State and A.I.D. are working with OMB and other Executive Branch agencies on a response to the draft House Foreign Affairs Committee bill. We hope to work closely with the Committee in an effort to craft a new foreign assistance act. At the same time, the NSC at President Bush's instruction is now in the middle of a very important review of our foreign policy and national security challenges; it also plans to examine the future direction of the foreign assistance program. I am pleased with the cooperative spirit with which the executive and legislative branches are approaching this effort, as well as the bipartisan nature of the discussions.

Far from being a distraction, I think our time is well spent if we end up with new legislation and a new program that will be more focussed, effective, and manageable than that which is currently in place.

A.I.D. FAMINE EARLY WARNING SYSTEM

SENATOR INOUYE: The principal objective of the Famine Early Warning System (FEWS) is to provide both A.I.D./Washington and its Mission Directors with a factual basis on which to make timely decisions regarding potential famines. A FEWS request for proposal (RFP) was announced August 12, 1988 and negotiations with the respondents are still in process.

Since the objective is to facilitate timely decisions, why the delay at this critical moment in African events?

AMB. WOODS: The process for the F.E.W.S. contract has followed the Federal Acquisition Regulations. The Request for Proposal (R.F.P.) was issued on October 19, and closed on December 5, 1988. Evaluation of the proposals has proceeded expeditiously. Meanwhile, A.I.D. has provided funding to continue the current contractors at a reduced level of effort through the end of June, to ensure timely preparation of the crucial reports for the current growing season.

According to the original timetable, this transitional funding would also have supported overlap of personnel between the outgoing and new contractors. However, one of the offerors has filed a protest due to its exclusion from the competitive range. Consequently, pursuant to the Competition in Contracting Act, we are prohibited from making an award until the General Accounting Office (G.A.O.) has issued a decision.

A.I.D. is seriously considering making the certification required under the Competition in Contracting Act to permit award notwithstanding the protest. This is because we are at the point where further delay would have serious negative impact on the project and more importantly on the U.S.G.'s ability to receive early-warning information and make adequate famine response decisions affecting the lives of millions of Africans.

PREPAREDNESS PLANNING FOR FAMINE PREVENTION

SENATOR INOUYE: Does A.I.D. intend to move beyond the detection of impending famine toward preparedness planning so as to prevent famine from occurring or to mitigate its effects?

AMB. WOODS: A.I.D. is committed to a concerted effort to prevent and mitigate famine in Africa. The F.E.W.S. project is only one part of that effort. The F.E.W.S. project gathers data on the likelihood of food emergencies, and reports these findings monthly for review by a regular decision-response mechanism consisting of the Food Security Committee in A.I.D.'s Washington headquarters and its counterpart working groups in A.I.D. field missions. The F.E.W.S. reporting requirement provides Missions with both opportunity and incentive for pursuing preparedness planning with their respective host-country governments.

Consistent with A.I.D.'s decentralized approached, primary responsibility for preparedness planning rests with the Missions. The Africa Bureau has adopted administrative measures to encourage the Missions to give higher priority to preparedness. Among these measures is guidance to field Missions, particularly in food deficit countries, to include a preparedness strategy in their Country Development Strategy Statement. We will be working with our Missions to assist them in implementing this guidance.

An integrated famine emergency-management system is comprised of warning, decision and response components with preparedness as a parallel effort. The F.E.W.S. project will focus only on warning whereby data collection, analysis, and dissemination are used to identify and target potential famines. This, along with preparedness, is a continuous operation essential for efficient implementation of all other aspects of the famine management system. Decision and response efforts are "activated" only after the need is identified and normally do not require continuous effort. All four elements, however, must be explicitly included in the famine management systems of both African countries and donors to assure that no warnings go unheeded and that the response is both appropriate and efficient. Thus, it is essential that early-warning efforts are closely coordinated within the total emergency management system. That is the goal of A.I.D. F.E.W.S. is a step toward that goal.

A.I.D.'S COMMITMENT TO NUTRITION

SENATOR INOUYE: Mr. Woods, I recognize the unique and multidisciplinary nature of solutions to nutritional problems, and believe that these solutions cannot be subsumed under the rubric of health, agriculture or any other single discipline.

Can we be assured that the Agency's commitment to solving nutritional issues will continue as an explicit and separate priority?

AMB. WOODS: I am committed to addressing nutritional issues as a separate priority. We have a separate Office of Nutrition in our central Bureau for Science and Technology staffed by six nutrition professionals. This office has strengthened the conduct of nutrition research and the provision of technical assistance, while continuing to coordinate with our agriculture, health and population programs on the numerous multi-disciplinary aspects of nutrition. We also have individuals responsible for nutrition projects and issues in the A.I.D. field missions and in Regional Bureaus. A.I.D. is currently developing a vision statement for nutrition. This statement will capture both the multi-disciplinary and separate aspects of nutrition.

PHILIPPINES MULTILATERAL ASSISTANCE INITIATIVE (MAI)

SENATOR INOUYE: What role do you believe United States private voluntary organizations and Philippine non-governmental organizations have in the formulation and implementation of the MAI?

AMB. WOODS: The use of the U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines' economic reform program and continuing discussions with other key donors. A.I.D. has extended its support to PVOs over the past several years, and under our current program, approximately $80 million is channeled through PVOs, cooperatives and community organizations. We expect PVOs to continue to play role in our overall activities in the Philippines.

SENATOR INOUYE: What plans do you have to ensure that the MAI will develop the human and natural resource bases of the Philippines?

AMB. WOODS: The development of human resources and proper management of natural resources form an integral part of a sustainable economic growth strategy. In our bilateral program and in our discussions with other donors, the development of human resources and sound management of the environment and natural resources base are important concerns. A.I.D. is planning to prepare a country environmental profile which will be the basis for a new $10 million Environmental and Natural Resource Management project starting in FY 1990. The environmental profile will be shared with other donors to provide a common information and data base around which the donor community can build complementary activities. Discussions have already been held with the World Bank on future cooperation and will be expanded to include other MAI donors.

PHILIPPINE ENVIRONMENTAL DEGRADATION

SENATOR INOUYE: The Philippines is beset by alarming environmental degradation, in particular the rapid loss of irreplaceable rain forest, critical watersheds, and coral reefs important for the spawning of fish.

What is A.I.D. doing to assist the Philippine Government Department of Environment and Natural Resources to reverse this degradation?

AMB. WOODS: Significant environmental degradation is both a result and contributor to poverty in the Philippines. In an effort to help reverse the current trend of environmental degradation and help maintain and improve the natural resource base in the Philippines, A.I.D. is supporting Philippine efforts to develop and disseminate new tree varieties, diversify farming and fishing practices, adopt soil conservation techniques, regenerate and protect forests, conserve natural coral reefs, manage mangrove forests, install artificial reefs, and improve fish habitats. A.I.D. assists public and private institutions, including the Department of Environment and Natural Resources, private voluntary organizations, research organizations and individual scientists. The Environmental and Natural Resources Management project is proposed for FY 1990 funding to assist with policy and program formulation and implementation of priority activities on upland and coastal resources.

SENATOR INOUYE: Does A.I.D. and/or the Philippine Government have a long-term environmental plan for the country?

AMB. WOODS: Environmental protection and sound management of natural resources is one of the four major thrusts of our program in the Philippines. A.I.D.'s current goals and objectives for the Philippines include sustainable resources management, rehabilitation and conservation to promote economic development and ensure environmental sustainability. The Government of the Philippines under its new constitutions gives explicit recognition to management of the environment and a new Department of Environment and Natural Resources has been established. A.I.D. and the World bank are discussing ways to assist its development and prepare a long-term action plan.

As a first step in this process, A.I.D. plans to support the preparation of a country environmental profile in close collaboration with Philippine institutions. This country profile will compile data and information on the status of renewable natural resources in the Philippines, identify the major environmental problems, and establish priorities for action. This profile, in conjunction with existing analysis, can be used by the Government of the Philippines to develop a long-term program to promote natural resources management.

OVERHAUL OF THE DEVELOPMENT ASSISTANCE PROGRAM

SENATOR INOUYE: Not since the 1970's has there been a major overhaul of America's development assistance program with a comprehensive review of existing A.I.D. missions.

Why did you choose this particular time to issue your report, Development and the National Interest?

At a time of shrinking foreign aid resources and no clear cut concensus on what is wrong with our present aid delivery system, what confidence do you have that any changes will be made by Congress?

AMB. WOODS: I think this is an excellent time for the Administration and the Congress to undertake a detailed review of the U.S. foreign assistance program. There is obviously a great deal of interest in undertaking such a review, as evidenced by the number of reports and studies that have been published within the past few months, particularly the one done by the House Foreign Affairs Committee Task Force under the able leadership of Congressmen Hamilton and Gilman.

As we point out in our own A.I.D. report, Development and the National Interest, the world is undergoing a period of great transition and change. As policies are being reexamined in all corners of the globe, it is appropriate that we reexamine our assistance programs, to make sure that our increasingly limited foreign assistance dollars are spent wisely and well.

My initial impression upon becoming Administrator of A.I.D., that the Foreign Assistance Act of 1961 has become too unwieldy, has been confirmed. There has been a tendency over the years to add new initiatives, reporting requirements and directives without much thought about what has been included in previous versions of the Act. The result has been a proliferation of objectives and concerns that makes it difficult to focus on the central tasks of our foreign assistance program.

I'm not sure I agree with your statement that there is no clear consensus as to what is wrong with the present foreign assistance program and its delivery system. There are a number of areas where the Administration, the Congress and outside interest groups would seem to agree, for example:

-- The need to reduce the number of objectives for the foreign assistance program from 33 currently in the FAA to no more than three or four;
-- The need to increase flexibility through the deletion of earmarks and the elimination of functional accounts;
-- The need for greater coordination among U.S. government agencies; within the donor community and with developing countries themselves, and;
-- The need to emphasize performanced-based accountability in our foreign assistance programs.

THE U.S. BENEFITS FROM FOREIGN ASSISTANCE

SENATOR INOUYE: Mr. Woods, often we hear the Administration justify foreign assistance on the grounds that it promotes our national security interests abroad, extends an American humanitarian presence abroad, and lays the groundwork for future U.S. exports. Little, however, is ever made of the fact that scientific and technological innovation applied to development problems can have a direct and dramatic application to agriculture, health, and energy problems here at home.

What development programs does A.I.D. fund which demonstrate a direct value-added to the United States as well?

AMB. WOODS: While not explicitly designed to do so, many A.I.D. programs contribute to technological innovations that provide benefits to the U.S. in the agriculture, health, energy, and other fields. For example:

- semi-dwarf wheat varieties developed at the International Agricultural Research Centers are used in the U.S. About 20 percent of the U.S. wheat area in 1984 was composed of such varieties.
- new cultivars from germplasm originating in several developing countries now generate 30-35 percent yield increases for Michigan bean/cowpea growers.
- A.I.D.-funded research at Oregon State University has resulted in the development of new superior strains of wheat, barley and triticale; this program clearly benefits U.S. farmers as well as farmers in the developing countries.
- A.I.D. is collaborating with the Government of India to assess various aspects of coal gasification technology for use with high-ash Indian coal. The work will be relevant for use with low-ranked coals in the U.S.
- A.I.D. has supported the development of a vaccine for measles that permits the vaccination of very young children in the U.S. as well as in developing countries.

SENATOR INOUYE: Do you believe that this notion of value-added should assume a more important place in our assessment of whether a program is deserving of scarce foreign aid resources?

AMB. WOODS: U.S. efforts to help stimulate the development of poor countries are properly justified primarily in terms of our strategic, humanitarian and commercial interests. It would not be useful to further complicate that justification. However, the unanticipated benefits, accruing to the U.S., of technical innovations intended to help poor countries can be substantial.

SENATOR INOUYE: Would you support an effort to make the notion of U.S. value added a part of A.I.D.'s annual presentation to Congress on its program funding proposals?

AMB. WOODS: It is extremely difficult to calculate accurately the benefits of specific technical innovations in developing countries. It would be virtually impossible to anticipate accurately the benefits captured in the U.S. However, I can continue to report to Congress, largely on an anecdotal, _ex post_ basis, examples for which the value added in the U.S. appears to be substantial.

FUTURE OF PROJECT-ORIENTED ASSISTANCE

SENATOR INOUYE: As the world enters the 21st century, the traditional U.S. reliance on project-oriented programs will become increasingly irrelevant. To be effective in the 1990s and beyond, American development policy must be catalytic, leveraging funds and resources from private sources and international financial institutions. It must aim at country-specific targets of opportunity where returns are likely to be high. It must coordinate all U.S. Government policies -- trade, investment, debt and others -- that affect development.

Are we again making the mistake of the 1960s and asking too much of our foreign assistance programs?

AMB. WOODS: Foreign assistance is just that--"assistance." The basic responsibility for economic development lies with each developing country government. Neither A.I.D. nor any other donor can absolutely assure the success of development projects and programs within a particular country -- and no one should expect us to do that. What we can do, however, is to use our limited resources wisely to further our own goals in the developing world, concentrating our efforts where they will do the most good and encouraging other donors and private investors to do the same, and to coordinate the policies of our own government toward that end. I do not think this is too much to ask.

It is not so much that development projects are becoming irrelevant as that they must be more broadly defined to include the conditions necessary for their success. It makes no sense to finance projects that fail due to bad policies or lack of effective host-government commitment; so we must concentrate our resources where they will do the most good in support of sustainable development. And since sustainable development depends on broad-based economic growth to generate the increasing resources it needs, we must give high priority to policy reforms and other programs to promote such growth. The host country can then support its own development projects from a higher level of income, with or without additional foreign donor support.

AGING

SENATOR INOUYE: For several years I have pressed the Agency for International Development to become more responsive to the needs of the elderly and the role aging programs can play in the development process.

What have you done to advance this issue within A.I.D. and what resources will the Agency be committing to aging reserch in FY 1990? Please be as specific as possible.

AMB. WOODS: I personally approved a strategy that is already providing us with considerable information on aging as it relates to health care in developing countries.

To advance the aging issue within A.I.D. we have:

-- Distributed our 1988 report Aging in the Third World to each mission,
-- Disseminated information about the World Health Organization's (WHO) Special Programme for Research on Aging (SPRA),
-- Supported travel of LDC respresentives to international meetings, and
-- For selected countries, we are preparing country profiles and conducting case studies.

For FY 1990, $200,000 has been budgeted for aging research. This brings the total amount of funds committed by A.I.D. to aging to almost $2 million since FY 1987.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

ASSISTANCE TO ANGOLA

SENATOR DECONCINI: In this year's request of $565 million for the Development Fund for Africa (DFA) there is $50 million for the Southern Africa Regional Development Coordination Conference (SADCC). In the past we have prohibited these monies from Angola, pending progress in the settlement of that civil war. We are seeing foreign troop withdrawal and hope that national reconciliation and free elections follow. If this occurs, are we prepared at A.I.D. to utilize some of these funds for economic reconstruction and development projects there to encourage peace?

I understand A.I.D. has evaluated some potential projects there and would like to see this committee consider the possibility of utilizing these monies to facilitate peace in Angola. It might also be used for amputees and monitoring human rights on both sides.

AMB. WOODS: Given the existing legislation and the political situation, we currently have no plans to provide development assistance to Angola through SADCC or bilaterally.

The joint A.I.D.-PVO technical team that visited Angola in October of 1988 was funded by the Office of Foreign Disaster Assistance (OFDA). OFDA funding is not affected by the legislation prohibiting economic assistance to Angola. The team did not evaluate specific projects, but rather assessed the emergency situation and the potential for U.S. PVO emergency relief activities there. As a result of this visit, a consortium of U.S. PVOs is currently working on a proposal for possible OFDA funding of PVO emergency relief activities in Angola.

At this point, the only other assistance A.I.D. anticipates for Angola in the future would be continued PL 480 emergency supplementary food aid for displaced persons, of the kind we have provided through UNICEF for a number of years.

Angola is currently one of a number of countries which A.I.D. is considering for a program of assistance to amputees (which would not fall under the restrictions on aid to Angola), but it is not likely that such a program will be implemented there this fiscal year.

If and when the political situation in Angola changes in the direction you describe, A.I.D. would be willing to reevaluate its policy towards that country, recognizing, of course, that A.I.D. cannot actually establish a regular economic assistance program for Angola unless existing legislation is amended.

MICROENTERPRISE

SENATOR DeCONCINI: I would like to encourage A.I.D. to continue to work hard to create the Micro Enterprise Loans at under $300 to truly poor individuals around the world. This earmark is currently at $75 million. I would like to work with A.I.D. on this, not against them. I will also be writing a letter soon asking for some information on average loans, how the program is progressing, and other topics.

AMB. WOODS: I appreciate your support. I will be pleased to share the results of A.I.D.'s microenterprise stocktaking exercise and the reaction of our advisory board to that exercise with you as soon as it is available. That study describes what we do and don't know about microenterprise development, and presents information about A.I.D.'s approach to microenterprise development over the past several years and the progress that we have made. I look forward to working with you on this program.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

FOREIGN AID REFORMS

SENATOR MIKULSKI: Several studies recommending foreign aid reforms have been published in the past few months, including a study by A.I.D. Some of the suggestions would require extensive study and discussion; others may be more easily instituted. Which of these suggestions should the Congress and A.I.D. adopt for fiscal year 1990?

AMB. WOODS: As you know, the NSC at President Bush's instruction is now in the middle of a very important review of our foreign policy and national security challenges. At the same time, the State Department and A.I.D. are working with the House Foreign Affairs Committee to see how we might craft a new foreign assistance act. As you noted, there are also a plethora of recommendations circulating on how we might improve the foreign assistance program. I have been actively engaged over the past year in examining these many proposals, along with producing the A.I.D. report: Development and the National Interest.

All of these reports reflect a consensus that development is an extremely difficult and long term effort, and offer a variety of suggestions for the future direction of foreign assistance. The Administration is currently working along with Congressional staff to flesh out a more streamlined and cohesive foreign assistance act, taking these various ideas into account.

Many of these initiatives were undertaken because of a growing recognition that the foreign assistance program has become overly complicated with too many objectives and restrictions, resulting in too little success in achieving our foremost objective of eliminating poverty. In that light, I would hope that both appropriation committees would build upon the spirit of cooperation that is already evidenced between the Administration and the legislative branch in working together to alleviate some of these impediments. The appropriations committees can be helpful to this end by eliminating the restraints brought about by earmarking and other funding restrictions. I am eager to work with you to achieve these necessary goals.

EL SALVADOR - A.I.D. STAFF FIELD VISITS

SENATOR MIKULSKI: Please comment on the statement in the New York Times that more than 100 A.I.D. officials work in El Salvador, "but perhaps four regularly go into the countryside and slums where most Salvadorans live, according to several American officials."

AMB. WOODS: The allegation is simply not true. Our American staff (30 direct hire, 27 PSCs, and another 20 plus contract personnel at present) are constantly traveling to the field. In the average week, A.I.D. estimates that fifteen to twenty American staff carry out site visits around the country. Moreover, many times that number of visits are carried out by the Mission's Salvadoran staff, as many as 50 to 100 per week.

American staff would even travel more frequently to the field if it were not for the security situation. At times, up to two thirds of the country is considered to be too conflictive and risky by our Security Office for Americans to travel by land. Salvadoran staff travel is also restricted for security reasons, although less so than for Americans whom the guerrillas specifically target for terrorist acts.

EL SALVADOR - A.I.D. AUDITS

SENATOR MIKULSKI: Also according to the Times: "Nearly 100 embassy audits are now trying to trace how Government officials stole American aid money." Last March the U.S. tightened up procedures in response to a corruption case involving $2 million in U.S. funds. Have the new procedures been successful in improving the accountability of aid?

AMB. WOODS: A.I.D., not the Embassy, is conducting about 70 audits, financial certifications and pre-award surveys of Salvadoran institutions. These audits and certifications are standard practice. In the past 18 months only two incidents (the National Commission on the Restoration of Areas (CONARA) and the Salvadoran Evangelical Committee for Assistance and Development (CESAD)) were referred to the Inspector General for possible misuse of funds. Even with sound financial management and accountability controls in place, no system can be completely foolproof against collusion and forged documents, as was the case in CONARA. CONARA's misuse of jointly-programmed Salvadoran-owned local currencies, not appropriated dollars, resulted in the suspension of disbursements until additional measures could be taken to further strengthen financial controls. All CONARA transactions are now pre-audited by Peat Marwick Mitchell and Co., with external audits conducted by Price Waterhouse. There have been no instances identified by these auditors of any additional attempts to misuse funds. In the case of CESAD, we have terminated our project. Questionable costs identified by a non-federal audit are being investigated. Overall, we believe that the extensive oversight and control procedures now in place maximize proper accountability for aid funds and, while not foolproof, minimize the chances of misuse.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

A.I.D REORGANIZATION -- FUNCTIONAL ACCOUNTS

SENATOR KASTEN: You have said that you would like to abolish functional accounts at A.I.D. because they attract earmarks and they're not necessary to keep track of funds and activity. You have also said that you would like to put a special emphasis on food and agriculture — to the point of singling it out for emphasis throughout the Agency. Similarly, you would like to highlight the importance of oral rehydration therapy, among other programs.

Please explain how you intend to emphasize certain programs in this way, on a country to country basis, without keeping track of them through the use of functional accounts.

AMB. WOODS: Through the DFA we are seeing what occurs when we have greater freedom to program in response to country needs. Instead of having four or five activity categories for Africa, there are over a dozen, yet we are able to track all of them. Using this experience, the Agency is redesigning the old subcategory system by which activities were tracked. The new coding system will allow us to track activities -- without relying on functional accounts -- in two ways: by purpose and by special issues.

I will use the data generated by this system to develop A.I.D.'s budget. I will also use the system to track program areas that I want the Agency to emphasize, such as food and agriculture and oral rehydration therapy. By setting budget levels for countries and offices characterizing the amount of certain activities I want to see within these levels, I can ensure that areas of interest to the Administration and the Congress are given priority. This approach will also provide the data needed for many of our Congressional reporting requirements.

SENATOR KASTEN: I have several questions concerning your stated desire to abolish functional accounts and organize agency activity on a country-by-country basis.

What categories do you propose to use to describe A.I.D.'s activities for reporting purposes and for forward planning?

AMB. WOODS: We want to build a system that reflects what we are really doing -- diverse as our portfolio may eventually be if we program on a country-by-country basis. Building on our DFA experience, we now are designing a new coding system that will enable me to track A.I.D.'s activities. Although all kinds of activities that will be captured in this new coding system have not yet been determined, I expect to be able to track all key categories such as basic education, oral rehydration therapy, and the like.

SENATOR KASTEN: How would these categories differ from existing functional accounts and what would be their comparative advantage?

AMB. WOODS: Existing functional accounts are, for the most part, very broadly defined. They are too highly aggregated to be useful in tracking agency activities in anything but a budget outlay sense. In the past, we have used a subcategory system closely linked to the functional accounts to track Agency activities. The new system will be an elaborated version of the old subcategory system, as modified by experience with real country programs, but it is not keyed into the functional accounts.

SENATOR KASTEN: As you know, virtually none of A.I.D.'s worldwide programs -- child survival, family planning, environment, biodiversity, etc. -- grew out of country programs. If the agency relied more on country programs to determine its focus or foci, what would happen to these worldwide efforts and how would future ones be managed?

AMB. WOODS: A strong focus on country based programming must continue to be at the core of the Agency's work. However, as long as there are problems that plague a large number of countries, we will find it useful to organize some of our work around those problems, be they of a regional or global nature. For example, I fully expect that on a worldwide basis, our work in the environment and biodiversity areas will grow over the next few years. Management of these initiatives would remain much the same as is now the case.

THE REPORT ON A.I.D. -- ECONOMIC GROWTH

SENATOR KASTEN: Your recently published report emphasizes the need to do more to promote economic growth in LDCs. Please outline the kind of activities you support in order to stimulate that economic growth.

AMB. WOODS: To promote economic growth we try to get the policy environment to send the right signals--incentives for markets, competition, opportunities for more people to become involved in the growth process--as entrepreneurs and workers in new jobs. Depending on the country, that means

--macroeconomic and sectoral policy reform to build on the country's natural comparative advantages within the world market economy,

--reforms that focus on regulatory impediments to business, of the kind Hernando de Soto found in Peru,

--privatization when government is an anti-competitive force and an inefficient player,

--agricultural diversification where traditional crop exports provide a weak basis for the balance of payments, or

--promotion of small and medium scale industries which can provide more jobs while increasing non-traditional exports.

It also means investment for the long term--in people, infrastructure, institutions...all of which help improve welfare as well as foster sustainable economic growth.

SENATOR KASTEN: How would you prioritize those activities?

AMB. WOODS: A.I.D. priorities are driven primarily by country circumstance. With exceptions such as Costa Rica and El Salvador, the IMF and World Bank take the lead in finding solutions to macroeconomic policy issues and A.I.D. often complements their efforts by concentrating on policy dialogue in key sectors not covered by other donors. We place the highest priority on the success of economic policy reform programs that will induce market-oriented, sustainable economic growth. On the sectoral level, food and agriculture continues to be a priority. Reforms in financial policy and other reforms designed to increase the role of markets in developing countries also are high priorities.

BASIC EDUCATION

SENATOR KASTEN: What instructions have you given and what leadership are you prepared to take in cooperation with the UNICEF, World Bank, UNDP initiative on basic education?

AMB. WOODS: In general I am cautious of worldwide initiatives because of their potential for rhetoric and the setting of unrealistic agendas. However, the worldwide education initiative launched by UNDP, UNESCO, UNICEF and the World Bank provides an opportunity for us to reinforce a number of policy objectives. In our discussions with the Education for All Commission we will make clear our intention to relate education reform to larger agendas of economic and social policy reform. We need to ensure that the education sector reforms advocated by the Conference are sustainable and that appropriate attention is paid to the needed changes and improvements in education finance, administrative and management systems (including options for decentralized management and involvement of community and private sector leaders) as well as to the changes in pedagogic practices and experimentation with new technologies.

BASIC EDUCATION EARMARK

SENATOR KASTEN: What constraints have you run into in meeting the basic education earmark and what steps are you taking to eliminate them?

AMB. WOODS: Any earmark that requires new starts in new countries necessarily places an added burden on staffing levels and operating expense budgets. The basic education earmark is no exception. Staff constraints for the design, implementation and management of new projects, and operating expense ceilings inhibit the missions' ability to introduce new projects in new sectors. In addition, the restrictive nature of the basic education earmark ignores A.I.D. support to important adult and nonformal education activities which address basic learning requirements of out-of-school populations. Despite these constraints A.I.D. is developing new basic education projects for FY 1989 in two countries and seeking innovative ways to deal with staffing and budget constraints in future basic education activities.

BASIC EDUCATION -- PROGRESS REPORT DUE

SENATOR KASTEN: Report language in the FY 1989 foreign operations bill required a report six months from enactment of the bill on your progress in meeting the earmark. We have not seen the report as yet -- in what stage is it?

AMB. WOODS: In accordance with report language in the FY 1989 foreign operations bill, A.I.D. is preparing a report on its progress in meeting the basic education earmark. The report will be submitted to Congress in early April.

ENVIRONMENTAL EARLY WARNING SYSTEM

SENATOR KASTEN: The A.I.D. "early warning system" for potential MDB project environmental problems has been a tremendous help in shaping U.S. voting instructions on upcoming loans.

This subcommittee has also asked that this information be shared with other sponsor and borrower nations as well as with the MDBs themselves.

Are other nations reviewing information provided by the "early warning system?"

Is this information being used by the MDBs and what impact is it having on reshaping potential loans to minimize adverse environmental consequences?

AMB. WOODS: A.I.D.'s semiannual "List of MDB projects with possible Environmental Effects" is distributed through the U.S. executive directors of the Banks to other executive directors of both sponsor and borrower nations. A.I.D. also shares the list with other donor agencies through our association at the OECD Development Assistance Committee (DAC). At special environmental meetings of the DAC, we have solicited input from other donor agencies. Those agencies have expressed appreciation for the list. We have established an informal dialogue with several European donors concerning projects on the list, U.S. voting positions and projects which might be included in future lists. The information from the early warning system is being used by the MDBs at several stages of project development. First we try to convey identified problems to the Bank early in the project cycle, or as early as we have information. Sometimes this step alone results in project redesign. We believe the project follow-up has had the effect of signaling to bank staff and middle management early that a project will be subjected to environmental scrutiny at the time it appears before the board. This has encouraged greater environmental analysis prior to project appraisal and negotiation. For particularly controversial projects such as the Narmada Sagar dam and Brazil Power II, the effect of outside scrutiny by the U.S., by NGOs and other sponsor nations has forced the banks and the borrowing countries to postpone project appraisal and to substantially modify the loan package.

ENERGY EFFICIENCY

SENATOR KASTEN: It is estimated that 80% of global greenhouse gas loading comes from the industrialized world, and yet the greatest rate of increase in emission of greenhouse gases is from the developing world.

What is A.I.D. doing to make improvements in energy efficiency a priority in our assistance programs?

As a component of energy development programs, what consideration is A.I.D giving to reduced atmospheric carbon loading?

AMB. WOODS: Four A.I.D. missions in the field, one regional bureau, and the central Office of Energy each have major programs in energy efficiency and conservation.

In Egypt, under an energy planning project, the Mission has begun a program of energy audits and an assessment of the potential for energy savings in industry. Also, under the umbrella of the proposed "Science and Technology for Development" project, the Mission will develop a major industrial conservation program, involving both the public and private sectors.

In Pakistan, the A.I.D. Mission is helping the government formulate an energy conservation policy. An Energy Conservation Group has been established to work with private industry to (1) create awareness, (2) establish training programs in relevant skills, such as boiler operation, and (3) sponsor selected demonstrations.

In Morocco, the A.I.D. Mission is working closely with the government to develop and implement a new national energy conservation policy. A new project on "Energy Demand Management" is planned for 1989, which will include a major role for private industry.

In the Philippines, a 6-year, $15 million project is devoted exclusively to promoting energy-efficient technologies in utilities, industry, and buildings. The project will include studies, seminars, training, and information dissemination, and assistance in establishing financing mechanisms.

The Asia and Near East Bureau is funding a 3-year, $3 Million "Energy Conservation Management" project, which focuses on energy conservation in buildings and includes a training component in energy management.

The Office of Energy in the central Bureau for Science and Technology has a 9-year, $14 Million "Energy Conservation Services Program" that offers assistance to all A.I.D. assisted countries in promoting improved energy efficiency in utility systems, industries, transportation, and buildings. In 1989, this program is engaged in four country- or region-specific activities: (1) assisting the Minister of Energy in Costa Rica in designing a regional efficiency program for the power sector in Central America; (2) working with A.I.D's Regional Economic Development Support Office for West and Central Africa to organize a Workshop on power sector efficiency for sub-Saharan countries; (3) implementing a load management program in Costa Rica; and (4) assisting with energy audits in the sugar industry in Swaziland.

The Energy Office also has a training program to which any Mission can send host country nationals--two training courses are exclusively on conservation and efficiency, and an additional half dozen courses include conservation components.

SENATOR KASTEN: As a component of energy development programs, what consideration is A.I.D. giving to reducing atmospheric carbon loading?

AMB. WOODS: A.I.D. is encouraging increased efficiency, as described in my previous response, and greater use of renewable energy.

With regard to renewable energy, our Egypt mission currently operates demonstrations of photovoltaics, solar thermal, and wind, and will soon contract for a feasibility study for the first windfarm in that country.

Our India mission has established a fund for the commercialization of innovative energy technology (including renewables) and is supporting the establishment of a photovoltaics testing center.

In Morocco we help fund a national renewable energy center.

Our central Office of Energy has several renewable-related activities: helping broker geothermal development in Kenya and small hydropower in Madagascar and India; producing three renewables-related publications this year (catalogs, manuals, and/or brochures); supporting ten nationals from A.I.D. countries to attend windfarm sites and a workshop in California; and designing a renewables training program.

In several cases, renewable energy technologies are integrated into projects in other sectors and are not part of our energy budget. In health, for instance, photovoltaic systems are slowly gaining acceptance for powering vaccine refrigeration and lighting in rural clinics. The A.I.D. Mission in Zaire has begun procuring such systems, and several health officers in other other Missions have asked for guidance.

In addition to the energy sources mentioned above, there is a potentially important energy fuel that is carbon-based but whose managed use would contribute no additional net carbon dioxide to the atmosphere: biomass produced through a renewable agricultural system. Our central Office of Energy has a Bioenergy Systems and Technology project that has activities in various stages of development in more than a half dozen countries.

SECURITY ASSISTANCE VS. DEVELOPMENT ASSISTANCE

SENATOR KASTEN: As you know, one of our yearly arguments revolves around how much security assistance we provide, versus how much development assistance versus how much military assistance. There can be no argument about the amount of military assistance, but I remain concerned that in presentations you and others make sometimes, much of this aid is mislabeled.

For example, the ESF account is put in a security assistance category, though somewhere between 25 percent and a third of that account is used for development assistance. Secondly, in computing the amount of DA we provide through the MDBs, the figures used represent only the paid-in portion, though for each one hundred dollars of development assistance provided through the MDBs, only a small portion is paid-in. At least the figure used for such development assistance should include the callable capital amount.

Do you agree with my analysis of these two accounts in the way they have been mislabeled?

AMB. WOODS: It is true that the labeling of ESF as security assistance causes some confusion. However, the rationale for allocation of ESF for particular countries or programs is based on fundamental U.S. security and geopolitical interests. To the maximum extent possible, once ESF resources are allocated by country they are programmed to achieve economic and development objectives. Thus, in a sense, these do "double duty". Nevertheless, it is extremely difficult to segregate ESF into categories, because it is used for multiple purposes, which frequently overlap. While approximately 30% of ESF is provided through projects, it is allocated largely on the basis of political and security considerations, in addition to economic need. The largest recipients of ESF project aid include Egypt, Pakistan, El Salvador and the Philippines - countries where the United States has vital security interests, who also require our assistance in addressing development problems.

As regards the MDBs, it is important to distinguish between how accounts are presented for budgetary purposes versus their actual resource base. The figures presented in our annual budget submissions for the 150 budget function focus on the amounts which need to be appropriated to sustain U.S. memberships in the MDBs, which is the paid-in portion of our subscriptions. Callable capital, as you know, does not require budgetary outlays. It is a contingent liability, and would be used only if the MDBs are unable to service their borrowings on private capital markets. There has never been a "call" on U.S. callable capital subscriptions.

PHILIPPINE ASSISTANCE - I.G. INVESTIGATION

SENATOR KASTEN: You are seeking significant increase for the the Philippines, including a special initiative totaling some $200 million.

As you know the Inspector General of your agency has been carrying out investigations centered around whether U.S. assistance found its way into private pockets in the previous government. I understand that the I.G. has requested a document held by the Governor of the Central Bank of the Philippines and the I.M.F. -- the only two existing copies. Both the I.M.F. and the Governor of the Central Bank have refused to provide this information to the I.G. While it is understandable that the rules of the I.M.F. do not allow such a release, the Governor of the Bank could do so.

Before this committee approves any new resources or initiatives for the Philippines, could you secure agreement from that Government that it will give this information to the I.G. so he can fully complete his investigations?

AMB. WOODS: The Governor of the Central Bank has been very cooperative with the I.G. In 1987 he provided the I.G. with all documents requested except the report on Central Bank operations. This document is not made available to other governments. Nevertheless, the Governor of the Central Bank stressed that he wanted to continue to be cooperative. He said that the Central Bank will trace expeditiously whatever specific disbursement the I.G. is interested in, without the need for U.S. Government review of massive reports of all Central Bank operations. I believe that with this Central Bank cooperation the I.G. can complete his investigation.

CENTRAL AMERICAN ASSISTANCE

SENATOR KASTEN: Critics of the El Salvador Economic Assistance Program contend that more project-oriented assistance is needed, rather than more ESF funding. As you know, ESF is often used to purchase necessary commodities to support export enterprises in Salvador.

Those same critics, though, usually look at Costa Rica and say that country needs more ESF-type assistance for exactly the purpose I just mentioned.

Please tell us about the value you see in these types of assistance for these two countries. Do you agree that their economic situations are different enough to justify different approaches?

AMB. WOODS: The economic and social circumstances in the two countries are quite different. Both the level and composition of the current programs and of the programs requested for FY 1990 reflect these differences.

In both countries, ESF balance of payments support is the principal leverage the United States has when encouraging the host governments to take needed economic policy reform measures to promote sustainable broad-based growth. However, the level of balance of payments support which is needed differs in the two countries.

Costa Rica's economy has improved more rapidly than El Salvador's over the last several years. Accordingly, Costa Rica's need for balance of payments assistance has declined. Also, other donors are now providing balance of payments support in addition to U.S. funds. This still substantial but reduced need for U.S. balance of payments support is reflected in the Administration's FY 1990 request for $57 million in ESF and $15 million in P.L. 480 Title I for Costa Rica which is $24.75 million lower than the FY 1989 ESF/P.L. 480 Title I balance-of-payments support level.

In El Salvador, the Administration's request for balance of payments support for FY 1990 is $12.5 million less than FY 1989 balance of payments levels, reflecting worldwide budget constraints. In Costa Rica, as we reduce our balance of payments support even further, other donors are positioned to make up the difference. Unfortunately, El Salvador does not have multi-country support at this time.

Costa Rica, the wealthiest country in Central America (excluding Panama), already has a well developed social service infrastructure. This is reflected in both the composition and the relatively low level of Development Assistance/Title II requested for FY 1990. Project assistance is directed primarily at development of non-traditional exports and natural resources management and training. In FY 1990 $11 million or 13% of the total economic assistance program is requested for project activities.

In contrast, A.I.D.'s Development Assistance portfolio in El Salvador is now the largest in the world. One-fourth of ESF funds are also used for projects. D.A., projectized ESF and P.L. 480 Title II funds requested for FY 1990 total $117.6 million, or 41% of the total economic assistance program. This high percentage of project assistance reflects the comparative lack of social infrastructure in El Salvador, which has been made worse by the destruction of infrastructure by guerrillas. Project assistance is focused in the traditional social sector areas of health, education, family planning, and agriculture as well as non-traditional exports and administration of justice program. A higher proportion of project assistance in El Salvador, especially through use of ESF funds, is in our judgment not desirable.

PHILIPPINES - ENVIRONMENT

SENATOR KASTEN: The Administration has requested $200 million for assistance to the Philippines. The Philippines face tremendous environmental problems. In fact, I believe many development assistance programs will fail unless we include basic resource protection programs in countries like the Philippines.

How much of the requested $200 million would be targeted for environmental protection and restoration?

AMB. WOODS: The use of the proposed $200 million as the first year U.S. contribution to the MAI will depend both on the final shape of the government of the Philippines' economic reform program and continuing discussions with other key donors. Environmental protection and sound management of natural resources is one of the four major thrusts of our bilateral program in the Philippines.

SENATOR KASTEN: Specifically what kind of allocation are we talking about for programs like upland watershed protection, fisheries, management, water pollution control (especially in Manila), etc.?

AMB. WOODS: The $10 million Environmental and Natural Resources Management project proposed for FY 1990 will supplement ongoing environment activities and support the development and dissemination of sustainable approaches to natural resource management. Specifically, A.I.D. plans to continue efforts to assist upland farmers to increase income while managing forest and adopting sound agroforestry/reforestation practices; assist coastal fishermen to increase income while managing coral reefs and mangrove forests and adopting rehabilitation practices; strengthen public/private national, regional, and local institutional capabilities; and to identify and conserve biological resources. A.I.D. also will continue to use of PVOs as a vehicle for natural resource and environmental interventions.

PHILIPPINE FISHERY FOLLOW-UP

SENATOR KASTEN: Fish provide over 50% of the protein in the Philippine diet. Unfortunately, the per capita supply of fish is steadily declining.

Almost 5% of total Philippine employment is in fishing . The spectacular fishing resource of the Philippines is being decimated because of environmental contamination and environmental destructive fishing practices.

Will any funds be available to assist Filipinos in better managing these fishery resources?

AMB. WOODS: Through the design of the Environmental and Natural Resources Management project and PVO activities, A.I.D. will evaluate and supplement current activities that assist the Philippines to manage coastal reefs and mangrove forests and to adopt environmental rehabilitation practices.

SENATOR KASTEN: Will any money be available for the national marine fisheries service to provide technical assistance for fisheries management?

AMB. WOODS: The proposed Environmental and Natural Resources Management project will include assistance to fishermen and coastal waters conservation. However, at this time I cannot confirm that the National Marine Fisheries Service will be part of the project.

SENATOR KASTEN: Would you describe the potential foreign policy implications of letting this downward spiral of the resource base continue?

AMB. WOODS: A stable, prosperous and democratic Philippines is very much in the interest of the United States and our friends and allies in Asia. To the extent that poverty continues to be pervasive in the Philippines, disillusionment with the democratic system will grow. The communist insurgency is largely fueled by discontent and the lack of economic opportunities. This could threaten political stability and the survival of the democratic process.

Significant environmental degradation is both a result of and contributor to poverty in the Philippines. The increase of population over the last decades and the decline of rural household incomes during the eighties have had a profound effect on natural resources, especially coastal areas and tropical forests. Fishermen, most of whom very poor, have overfished their catch areas. Through dynamite fishing they have done great damage to marine life, especially coral reefs. Low income and landless farmers have pushed farther and farther into the upland areas, clearing forests for slash and burn agriculture. Combined with widespread logging, this practice has resulted in the loss of 50 percent of the Philippines forest cover over the past 20 years. These practices, if continued, will continue to contribute to a reduced natural resource base and poverty. The challenge to the development community will be to identify opportunities that will improve the livelihoods and income of the rural poor, while promoting long-term sustainable resources management.

PVOs AND PHILIPPINE ENVIRONMENTAL MANAGEMENT

SENATOR KASTEN: The assistance programs run by private voluntary organizations in the Philippines are extensive. I understand that at least 30 U.S. based PVOs operate there.

What is currently being done, and more importantly, what more can we do, to coordinate the work of these PVOs in promoting environmental and resource management in the Philippines?

AMB. WOODS: A.I.D. recognizes that PVOs play an important role in development. In the Philippines, we support U.S. and indigenous PVOs with country-wide outreach. The value of A.I.D.'s portfolio for assistance to PVOs, cooperatives, and other non-governmental organizations in the Philippines is approximately $80 million. A.I.D. has expanded its support to PVOs and local organizations in accordance with their capacity to carry out projects. The current program focuses on strengthening local institutions.

The new PVO Co-Financing project places a special emphasis on protection of the environment which will add a long-needed dimension to PVO activities in the Philippines. A.I.D. has included environmental soundness among the criteria for PVO activities. There are a growing number of indigenous environmental non-governmental organizations in the country as well as increasing interest in the U.S. PVO community in programs to address the resource management issues. The development of a national environmental action plan will help provide a focus for guiding their activities. A better means for exchanging information and coordination of efforts is an important concern for A.I.D.

The environmental impact of PVO activities will be assessed in reviewing individual proposals with special attention to the preservation of endangered species, reforestation, wildlife, and the gene-pool of native crops.

A.I.D. also plans to contract with a specialist in environmental education to increase public and institutional awareness of pollution and environmental problems. This specialist will identify actual and potential environmental hazards, their localities, and work with PVOs, other organizations, and the media to enhance environmental consciousness.

SENATOR KASTEN: What plans do you have to ensure that the Multilateral Assistance Initiative will develop the human and natural resource bases of the Philippines?

AMB. WOODS: The use of the U.S. contribution to the MAI will depend both on the final shape of the government of the Philippines' economic reform program and continuing discussions with other key donors. We currently expect that some part of our contribution will be budget support and sector programs linked to the implementation of agreed economic reform programs aimed at promoting sustainable economic growth.

The development of human resources and proper management of natural resources form an integral part of a sustainable economic growth strategy. In the Philippines, A.I.D. will pay close attention to the development of both.

DEVELOPMENT AND THE NATIONAL INTEREST REPORT

SENATOR KASTEN: Your recent report entitled, Development and the National Interest: U.S. Economic Assistance into the 21st Century, has received a good deal of attention both in the media and among people interested in these issues.

I understand that you strongly object to some critics who read your report as an indication of failure of the U.S. assistance program, when you had meant to look at the larger question of development needs and not necessarily official development assistance.

Without answering all the criticisms, are there some specific matters which you would like to see this subcommittee or the Congress use to enact changes in the way we, or you, do business?

AMB. WOODS: As you noted, the intent of the A.I.D. report was not to evaluate the effectiveness of the foreign assistance program per se, but rather to assess what has happened to developing country economies over the past 20 to 30 years. The report certainly does not conclude that all A.I.D. bilateral assistance programs have failed. A.I.D. has had a number of notable successes, such as the rapid dissemination of new agricultural technologies and in child survival programs, which have produced measurable reductions in infant and child mortality rates. To be sure, foreign aid, combined with scientific advances has had a significant impact on other measures of development such as longer life expectancy, lowered infant mortality and morbidity rates and rising primary school enrollment.

That having been said, I would note, however, that overall conditions of poverty in many countries in the less developed world are worse today than they were 20 years ago. This fact alone indicates that we need to revise our thinking about the foreign assistance program. In doing so, we need to remain cognizant of the central fact which was underscored so strongly in our report: the economic policies of developing countries had more impact on progress than did, for example, levels of official development assistance.

There are a number of recommendations that have been made concerning changes to the Foreign Assistance Act of 1961 and to the structure of the aid program. Of those which appear to have gained support in both the Congress and the Administration, we are particularly eager to see progress on:

-- reducing the number of objectives for the foreign assistance program from the 33 currently in the FAA to no more than three or four with broad based and sustainable economic growth being central among them;

-- increasing flexibility through the deletion of earmarks and the elimination of functional accounts;

-- better coordination among agencies, within the donor community and with developing countries themselves, and;

-- emphasizing performanced-based programming and accountability in our foreign assistance programs.

Over the coming weeks, we will be working closely with the Congress on these and other specific recommendations in an effort to craft a new bipartisan foreign assistance act and a newly restructured aid program.

QUESTION SUBMITTED BY SENATOR ALFONSE M. D'AMATO

SHAARE ZEDEK HOSPITAL

SENATOR D'AMATO: Ambassador Woods, twice in recent months I have written you about my sincere desire that Shaare Zedek Hospital in Jerusalem receive the $2.2 million in Fiscal Year 1989 funding under the American Schools and Hospitals Abroad (ASHA) program. The hospital requested the funds to construct a geriatric chronic care facility for Arabs, Christians, and Jews in this most troubled area of the World. Several of my colleagues joined me in one of those letters, and I know that some of my colleagues have contacted you separately as well.

As I said in my more recent letter, "This is my highest ASHA program priority this year." It is an important project that should be funded.

My question, therefore, is when do you anticipate decisions on ASHA program FY 1989 funding being announced and why are these announcements so far behind schedule?

AMB. WOODS: We will announce Fiscal Year 1989 funding decisions before summer. Decisions are usually made in the spring, so I would not characterize the present situation as being far behind schedule.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

MENTALLY AND PHYSICALLY HANDICAPPED

SENATOR SPECTER: Last year this committee expressed its concern that ASHA may not have been funding international programs for the mentally and physically handicapped. Has A.I.D. re-evaluated that position and what steps, if any, has the Agency taken to address this concern?

AMB. WOODS: A.I.D. has determined that institutions which assist the physically and mentally handicapped are eligible to participate in seeking assistance from the American Schools and Hospitals Abroad (ASHA) Program provided they otherwise meet the requirements of Section 214 of the Foreign Assistance Act and existing ASHA program criteria. All interested parties will be provided the information they need as prospective applicants and will be furnished application forms on which to make their case.

INTERNATIONAL PROGRAMS FOR THE MENTALLY HANDICAPPED

SENATOR SPECTER: According to conclusions found in studies, such as the "National Employment Survey for Adults With Developmental Disabilities," conducted by William E. Kiernan, et al, of Children's Hospital in Boston, on behalf of the Department of Health and Human Services, persons with developmental disabilities who are trained for various employment opportunities significantly benefit society. They generate tax revenue, reduce long-term care costs, and eliminate their dependency on welfare. In light of these conclusions, what is A.I.D.'s position regarding international programs and training mentally handicapped individuals?

AMB. WOODS: There is no policy regarding the mentally handicapped per se, but neither does A.I.D. ignore the problem. A.I.D.'s objective is to increase life expectancy and its quality in the developing countries, where half the deaths occur among infants and children. A.I.D.'s policy is therefore focused on the reduction of infant and child mortality, morbidity, disease and disability, the key causes of which are the interactive cycles of poverty and disease.

QUESTIONS SUBMITTED BY SENATOR DON NICKLES

NATIONAL RURAL WATER ASSOCIATION

SENATOR NICKLES: Last year's Committee Report urged A.I.D. to work with the National Rural Water Association to develop a pilot program to provide technical assistance for rural water programs. I understand that the Association has recently presented the Agency with a proposal. Could you please tell me what the status of this program is?

AMB. WOODS: Representatives from the National Rural Water Association (NRWA) met with our Latin American Bureau Assistant Administrator in mid-February, 1989 and presented their proposal. The NRWA proposal was subsequently distributed to Central American A.I.D. Missions for review and consideration in their health related programming. It was suggested that NRWA contact those

Missions directly to discuss details and possibilities of a fit for the proposed NRWA pilot project in the Missions' programs.

I understand that the NRWA very recently sent the Missions additional information which the Missions have not yet received. NRWA representatives are expected to meet with A.I.D. staff in El Salvador in the near future. That Mission is currently developing a major rural water supply project, and there are possibilities for a NRWA activity there.

DEVELOPMENT FUND FOR AFRICA

SENATOR NICKLES: Congress has given A.I.D. significant discretion in the operation of its program in Africa through the Development Fund for Africa. Could you explain how these programs in Africa differ from your other programs in Asia or Latin America? Specifically, could you tell me whether you are using any of your program flexibility to reflect the criticisms of development assistance contained in the recent Woods Report?

AMB. WOODS: There are three fundamental differences between A.I.D.'s program in Africa and those in other regions of the World. First, the allocation of our assistance in the DFA is much more directly based on economic performance criteria than other programs. Second, DFA programs are increasingly sectoral, rather than project. Third, our programs in Africa are much more concentrated on a few development objectives. The A.I.D. Report argues that three of the major weaknesses of our foreign assistance programs are (1) the conflicting objectives of U.S. assistance; (2) the attempt to achieve global objectives with limited resources; and (3) the tendency to use specific project activities which may not be sustainable, rather than broader systemic, sectoral approaches. The way in which A.I.D. is using DFA flexibility reflects all of these concerns.

Additionally, the A.I.D. report found that economic policies, above all, determine the pace at which the economies of developing countries expand and flourish. The African Economic Policy Reform Program, as part of the DFA, has allowed us to focus our attention and resources on countries which have or are prepared to institute growth-oriented economic policies.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will now stand in recess until 2 p.m., Tuesday, April 4.

[Whereupon, at 11:10 a.m., Thursday, March 16, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, April 4.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, APRIL 4, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:05 p.m., in room S–126, the Capitol, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Mikulski, Kasten, and Nickles.

DEFENSE AGENCIES

DEFENSE SECURITY ASSISTANCE AGENCY

STATEMENT OF LT. GEN. CHARLES W. BROWN, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF RICHARD E. BISSELL, ASSISTANT ADMINISTRATOR, BUREAU FOR PROGRAM AND POLICY COORDINATION

DEPARTMENT OF STATE

STATEMENT OF H. ALLEN HOLMES, ASSISTANT SECRETARY OF STATE FOR POLITICO-MILITARY AFFAIRS

OPENING STATEMENT OF HON. PATRICK J. LEAHY

Senator **LEAHY**. Good afternoon. I apologize for being late, but Monday being the first day back everybody has 12 to 14 different things going on at one time. We plan everything before we leave to go back home to see our constituents so that we will not have anything going on the first day we come back but things always come up. President Mubarak in town, President Arias in town, and some others are coming in.

Senator Kasten spoke to me earlier about wanting to be here, but he has to be somewhere else and is going to try to come a little later on.

With us today are, first, General Brown, who is the Director of the Defense Security Assistance Agency, Mr. Bissell, who is Assistant Administrator of the Agency for International Development, and Mr. Allen Holmes, who is Assistant Secretary of State for Politico-Military Affairs.

In the past year a number of remarkable events have taken place. We have seen the Soviet withdrawal from Afghanistan, an end to the Iran-Iraq war, an agreement for the withdrawal of Cuban troops from Angola, and South African forces withdrawing from Namibia.

I went to the United Nations with Secretary Shultz for the signing of the Southern Africa Peace Agreement. I hope that what has occurred in the last 2 or 3 days is just a matter of initial complications. If it is more, we want to know about it.

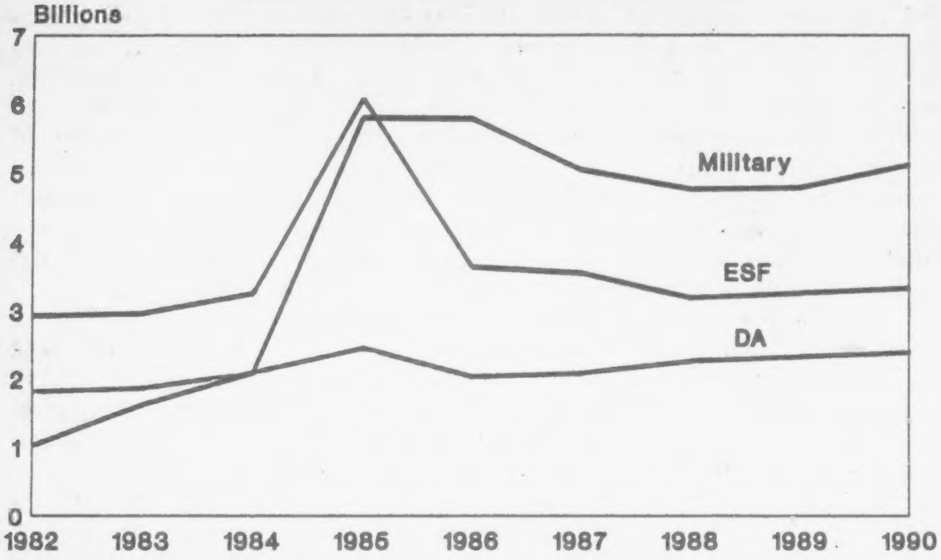
In addition, we have seen the beginning of the Vietnamese withdrawal from Cambodia. There has been progress toward peace in Central America. And I think the United States can take credit for playing an important role in some of these events.

Last year the former Deputy Secretary of State, Mr. Whitehead, told this subcommittee that the administration's request for security assistance for fiscal year 1989 was almost $100 million below the 1987 level, and $800 million below what was appropriated in 1985–86. In other words, while funding for security assistance declined substantially last year, peace began breaking out all around the world at the same time.

I do not want to make more of this than the facts would warrant, but I should point out that times are changing. So we may need to redefine threats to American interests less in terms of communism—which is an ideology certainly much changed, some would say maybe moribund—but rather look at some of the threats to American interests such as explosive population growth, degradation of the environment, penetration of new markets by our competitors, massive international debt and lack of economic growth in the Third World.

You are seeking an 8.6-percent increase in military aid and 2.8 percent more for ESF for fiscal year 1990. You again propose that all military aid be on a grant basis, with no loans.

We have a chart over here that shows recent trends in our foreign aid. It will not be any surprise that security assistance got the biggest share of a shrinking pie in recent years. It shows dramatic changes.



Appropriation Trends
FY 1982 - FY 1990

Senator LEAHY. That concerns me. I know the justifications for these programs—base rights agreements, commitments to our allies, external threats, fighting insurgencies, promoting democracy—and I agree with many of them. But I wonder whether we, and some of the nations we help, are really more secure because of all that money. Certainly if my mail is any indication I think the American people wonder too.

One reason foreign aid is not very popular, certainly not in Vermont—and probably not in Wisconsin either—is because of the stories of foreign military brass who are living fairly high off the hog. I suspect that General Noriega pocketed more than his share of American tax dollars.

I think we have to make a special effort to account for this money, even if it means at times offending the recipient governments. There is a very simple reason. It is the American people's money, and we are responsible to see that it does not end up in the pockets of a Marcos, a Duvalier, a Noriega.

Too often we ignore the root causes of regional conflicts—poverty, unemployment, official corruption, and repression. We send in military aid to keep the lid on in these countries, but below the surface the problems get worse.

I agree with former Deputy Secretary Whitehead, who said last year that we should use our resources in significant countries at meaningful levels rather than scattered thinly throughout all regions. Spending a little bit all over the place and not getting anything out of it makes less sense to me than picking a few places of highest interest and spending the money to make it work.

So I have to wonder whether your proposal has accomplished that. I think it is important to maintain our presence abroad, but we cannot be everything to all people. Sometimes I think our presence would be more fruitful if it were in the form of American companies doing business abroad.

Human rights is another issue. Our law requires us to pay attention to the human rights record of governments we assist. We are going to need leadership from the new administration on this, something that has been sorely lacking in the past.

This committee will look very specifically at those questions of human rights. I intend, at least as one Senator, to tie the expenditure of foreign aid dollars far more closely to the human rights performance of aid recipients. I think you should know that. I have gone a bit long with my opening statement, but I am new as chairman of this committee and I wanted you to know how I felt.

I recall when I came here as a new Member 15 years ago, at a meeting of the Armed Services Committee, I said I wish there was some way that we could have the Secretary of State and Secretary of Defense come up before a joint meeting of the appropriate committees or before the Senate as a whole and spend a couple days just discussing our foreign policy and our defense policy.

I thought sometimes the two Secretaries passed like ships in the night. We had very serious reasons for a particular defense policy but did not necessarily carry out a foreign policy or vice versa. We would make a determination to be involved in a particular part of the world as a matter of foreign policy but we did not have the military power to follow through if we had to make a commitment. Or we would build a military capability either of our own or another country and nobody really asked the question do we want to be involved there anyway; does it make any sense?

So I look forward to working with you to develop a program that honors our commitments to our allies but also has the support of the American people.

I yield to Senator Kasten.

OPENING STATEMENT OF HON. ROBERT W. KASTEN

Senator **KASTEN**. Mr. Chairman, thank you. I would like to convey a warm welcome to our witnesses here. I will not be able to be here, as I have said for all of the meeting this afternoon. But we have enjoyed a cooperative working relationship with these gentlemen and I look forward to more of the same as we take on the many important issues, some of which you outlined, Mr. Chairman, concerning security assistance and peacekeeping for the next fiscal year.

I might just say that I think your statement about trying to coordinate defense and foreign policy is an important one and I think we may, because of personalities involved, be in a unique circumstance this year with this particular administration. I think you would have to go back a long time in history—maybe this has never occurred—where you have had two individuals, Mr. Baker and Mr. Cheney, who have worked more closely for a longer period of time, and then, in addition, Brent Scowcroft.

You have three people who really know each other as colleagues, as friends, as fellow campaigners and also as fellow administration workers in different capacities over a period of time, with an intimate knowledge of the Hill because of their background and experience, but, most importantly, an intimate knowledge of one another and the departments.

So I think that in this era of Gramm-Rudman and scarce resources we are particularly fortunate to have these three individuals, because I think by working carefully with them, Mr. Chairman, we on this committee will be able to allocate these scarce resources in the best way possible.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you. I concur. I have a great deal of respect for Secretary Baker, Secretary Cheney, and General Scowcroft. They are all personal friends of mine. I have talked to all three of them about what we want to do in this committee and I think there is a very strong interest in the coordination of defense and foreign policy. That is why I raised it.

I think this is important with shrinking resources. It is also good politics to show that kind of effort.

Well, let us begin. Secretary Holmes, do you have an opening statement?

STATEMENT OF HON. H. ALLEN HOLMES

Mr. HOLMES. I do, Mr. Chairman. I would like to ask that my statement be entered into the record and I will just summarize what is in it, if I may.

It is a pleasure to appear before you to present our security assistance program for fiscal year 1990 and I would like to begin by reviewing some of the underlying purposes of our proposal. They include helping our security partners to deter and defend against aggression and instability, maintaining our alliances, developing sound military-to-military relations, promoting regional stability, contributing to our access to military bases and facilities abroad, thereby maintaining strategic mobility of U.S. forces, strengthening the economies of key countries, and providing support for emerging democracies while defending existing democratic institutions and values in other countries.

Helping countries to defend themselves and counter domestic threats from guerrillas and narcotic traffickers contributes to our own security. It is much more effective and less costly in the long term than using U.S. military personnel for the same purposes.

Assisting America's friends and allies to defend themselves we think is a highly efficient use of resources. At a time particularly of constrained budgets, security assistance becomes even more important. In the future the United States will be relying ever more on friends and allies around the world to share the common defense burden. Security assistance will remain a major tool for encouraging and enabling them to do so.

It is not a philanthropic effort. It has beneficial domestic impacts such as jobs for Americans and support of exports, investment opportunities and access to raw materials. It also makes possible economies of scale in procurement for the U.S. Armed Forces, such as longer production runs.

Security assistance programs suffered steady deep cuts beginning in the mid-1980's. There has been an aggregate cut of 33 percent since 1985. Along with this reduction in funding there has been an increasing tendency to earmark funds for particular countries. In fiscal year 1989 98 percent of ESF and 94 percent of military aid were earmarked. The reduction of earmarking is a recommendation of the Hamilton-Gilman task force report and it is a proposal that we support.

Reduced funding, together with earmarking, forced us to terminate or underfund many unprotected programs. The results were felt most acutely in Africa, Latin America, and a couple of other places as well.

The administration's 1990 budget request is the product of careful analysis and represents an effort to define clear priorities in the face of limited funding. The request maintains an overall balance in foreign assistance between military and economic aid programs of approximately 65 percent for economic and 35 percent for military aid.

At $5.1 billion, the fiscal year 1990 military assistance budget request represent only a modest increase over last year's $4.9 billion request, of which Congress appropriated $4.7 billion. This year's budget proposes some modest increase in ESF to $3.3 billion from last year's $3.2 billion request. In addition, we seek a small $7.1 million increase for the valuable IMET program.

The proposed increase for military sales financing includes funding for programs we have had to cut back severely over the last several years.

Examples include $75 million more for the Philippines to enhance the Philippine counterinsurgency effort and to accommodate the annual $200 million best efforts commitment under the base rights extension agreement; $50 million more for Turkey, where resources have been insufficient for needed armed forces modernization; $38 million more for Jordan, a key country with major needs, which received only $10 million in fiscal year 1989; $25 million more for Portugal, which affords us critical base rights to support needed modernization; $23 million more for Thailand, the only United States Treaty ally on the Southeast Asian mainland, a country which is turning to other military suppliers for lack of adequate United States financing; $21 million more to fight the drug war in Latin America and the Caribbean; $20 million more for Honduras, where needed ground forces improvements have been deferred; and $12 million more for El Salvador to bring that country back to the level needed to sustain its military effort.

The fiscal year 1990 security assistance request seeks authority to provide all FMS financing on a nonrepayable basis to further increase the quality of U.S. assistance and to reduce the debt burden of military aid recipients.

In conclusion, security assistance continues to play a vital role in U.S. foreign and national security policy. Key U.S. friends and allies continue to rely on us to provide essential assistance to preserve their freedom. The United States must continue to be seen as a reliable security partner. Resource requirements adequate to fund these programs remain extraordinarily modest. A few hundred million dollars can make the difference between an efficient and effective foreign policy and one which must struggle at the margins to defend U.S. interests.

I would like to appeal to you, Mr. Chairman, for your help in obtaining more consistent and flexible assistance funding. Thank you.

[The statement follows:]

STATEMENT OF HON. H. ALLEN HOLMES

It is a pleasure for me to appear before you to present the Administration's proposed security assistance budget for Fiscal Year 1990. My colleagues and I look forward to working with you in shaping legislation which best serves our national interests.

In this regard, the President has instructed the National Security Council to review the range of foreign policy and national security challenges facing the nation. The NSC will recommend to the President by mid-May options for U.S. policy designed to help shape events in furtherance of U.S. goals and ideals. These policy reviews are now underway and could affect the components of our funding request, although the sum total of our request will remain unchanged.

As you are well aware, Mr. Chairman, security assistance is an instrument of our foreign and national security policy. Military assistance (FMS financing, IMET and MAP General Costs) and economic support are used to further a number of mutually reinforcing goals. These include:

--Enhancing the ability of U.S. security partners to deter and defend against aggression and instability;

--Maintaining the cohesion and strength of our alliances;

--Developing sound military-to-military relations that support our diplomatic strategy and enhance U.S. influence and prestige.

--Promoting regional stability;

--Contributing to our access to military bases and facilities abroad, thereby maintaining the strategic mobility of U.S. forces;

--Strengthening the economies of key countries that are attempting to adjust to heavy debt, depressed commodity export prices and other startling changes in the global economic environment; and

--Providing support for emerging democracies, while defending existing democratic institutions and values in other countries.

Since the end of World War II, security assistance has been a key component of our global strategy of deterrence, collective security and forward defense. As the challenges and threats we face have shifted, so has the focus of the security assistance program. At present, of course, we continue to emphasize support for the Middle East peace process and for alliance partners, most of whom also provide us with access to military facilities in their countries. But security assistance also underwrites U.S. commitments and supports important U.S. interests in many nations, responding to an ever-changing world environment.

Helping foreign countries to defend themselves, and to counter domestic threats from terrorists, guerrillas and narcotics traffickers, contributes importantly to our own security. It is more effective --and less costly in the long term-- than using U.S. military personnel for the same purposes. To equal the military effect of friends and allies who are "on the scene", we would have to spend much more on U.S. military personnel, mobility and logistics.

At a time of strained budgets, security assistance becomes even more important. In the future, the United States will rely more on friends and allies around the world to share the common defense burden. Security assistance will remain a major tool for encouraging and enabling them to do so. But security assistance is not a philanthropic effort; it has beneficial domestic impacts. Jobs for Americans and support of exports which benefit the U.S. economy are direct results. Collateral benefits include enhanced investment opportunities and access to raw materials. The program also makes possible economies of scale in procurement for the U.S. Armed Forces (such as longer production runs) which convey both military andeconomic benefits. Above all, security assistance is a wise investment in our overall national security and well-being.

Despite its importance, funding for the U.S. security assistance program has been cut repeatedly, beginning in the mid-1980s. Since FY 1985, the program has been reduced by a third, from approximately $12 billion to $8 billion in FY 1989. Along with this reduction in funding has come an increasing tendency for Congress to earmark funds for particular countries. In Fiscal Year 1989, 98 percent of ESF and 94 percent of military aid were earmarked. This continued a trend of increased earmarking underway since the mid-1980s, when about 50 percent of security assistance funds were earmarked. The effect of earmarking has been to reduce dramatically the funding available for allocation by the

Administration to non-earmarked countries, and therefore to limit our flexibility.

Declining funding for security assistance programs, together with Congressional earmarking, has forced us to terminate or seriously underfund many unprotected programs. The results have been felt most acutely in Africa and Latin America. Overall, the Administration's ability to use scarce resources to meet foreign policy priorities has been greatly reduced. In response to pressures to reduce the budget, the Administration in recent years has presented smaller, more austere security assistance budgets, and worked with foreign nations to plan activities more carefully while seeking from Congress greater flexibility in order to increase program impact. Congress has responded by improving the financial and repayment terms of security assistance programs. ESF, which previously included loans, has recently been made an all-grant program, while FMS has been provided either at concessional rates of interest or as grants. This helps. But earmarking and other restrictions remain serious impediments to the design and implementation of policies and programs to serve our vital interests.

The Administration's FY 1990 budget request for the security assistance program is the product of careful analysis. It represents an effort to define clear priorities in the face of limited funding. We are focussing on a few areas of priority policy concern. At the same time, our request maintains the overall balance in foreign assistance between military and economic aid programs, with approximately 65 percent for economic and 35 percent for military aid.

Our request would increase ESF by less than 3 percent and military assistance by 7 percent over FY 89 allocation levels. At $5.1 billion ($5 billion in FMS financing, $40.4 million for MAP General Costs and $54.5 million for IMET), our FY 90 military assistance budget request represents only a modest increase over last year's $4.9 billion request, of which Congress appropriated $4.7 billion. In addition, we seek a small increase for the valuable IMET program.

The ESF program fared better last year, suffering a cut of only $22.5 million. This year's budget proposes a very modest increase in ESF, to $3.3 billion, from last year's $3.2 billion request. At less than 3 percent, this is not even enough to keep up with inflation.

As you are aware, ESF is a particularly valuable resource, as it enables the U.S. to address directly economic policy constraints to development in many countries. Depending on the needs of individual recipient countries, it can be provided as project assistance or in macroeconomic form, i.e., cash transfers or commodity import financing. Country allocations of ESF respond to U.S. geopolitical and foreign policy interests. AID is responsible, under the direction of the Secretary of State, for design, implementation and accountability of ESF programs and projects.

As in prior years, major recipients of ESF will continue to be Israel, Egypt, Pakistan, the Philippines and other base rights countries (Turkey, Portugal) and Central America. Modest additional resources are requested for the Dominican Republic, Belize, the islands of the Eastern Caribbean and other countries.

Our proposed increase for military sales financing --a total of $328 million over FY 89 actual appropriations-- would fund programs we have had to cut back severely over the last several years. Examples include:

--$75 million more for the Philippines, to enhance the Philippine counter-insurgency effort and to accommodate our best efforts commitment for military sales financing under the base rights extension agreement;

--$50 million more for Turkey, where resources have been insufficient for needed armed forces modernization;

--$38 million more for Jordan, a key country with major needs, which received only $10 million in military aid in FY 89;

--$25 million more for Portugal, which affords us critical base rights, to support needed modernization;

--$23 million more for Thailand, the only U.S. treaty ally on the Southeast Asian mainland, a country which is turning to other military suppliers for lack of adequate U.S. financing;

--$21 million more to fight the drug war in Latin America and the Caribbean;

--$20 million more for Honduras, where needed ground forces improvements have been deferred; and

--$12 million more for El Salvador, to bring that country back to the level needed to sustain its military effort.

In the rest of Latin America, we seek an additional $10 million, largely to continue our support for emerging democracies there. The request also includes an increase of $48 million for African countries, where our emphasis is on promoting professionalism among that region's militaries and developing military-to-military liaison channels.

The FY 1990 security assistance request seeks authority to provide all FMS financing on a grant basis, to further increase the quality of U.S. assistance and reduce the debt burden of military aid recipients. A number of key U.S. friends and allies received assistance in the form of high-interest rate loans in the late 1970s and early 1980s. Repayment of these loans has imposed a heavy and growing burden on these countries. The Administration, with the support of Congress, has moved in recent years to cease adding to this burden by providing most FMS financing in the form of grants. Only those countries which previously received FMS credits will be permitted to use FMS financing for commercial purchases in FY 1990.

In conclusion, I wish to emphasize a point which I made at the beginning of my testimony. U.S. security assistance continues to play a vital role within the overall context of U.S. foreign and national security policy. Despite the positive international trends over the past year, dangers and uncertainties confront a number of countries of importance to us. Key U.S. friends and allies throughout the world must continue to rely on us to provide essential assistance to preserve their freedom. The United States must continue to be seen as a reliable security partner to these nations, if it is to retain their trust and cooperation.

A continuation of the trend toward sharply lower and more politically-constrained aid programs could threaten U.S. access and influence in many key regions over the coming years. Vital U.S. interests could be compromised and our ability to project force around the world dangerously diminished. By contrast, the resources needed to fund these programs adequately are modest. A few hundred million dollars can make the difference between an efficient and effective foreign policy and one which must struggle to advance U.S. interests. It is up to us to supplement the efforts of key partners and allies, as they seek to defend themselves against overt aggression, low intensity conflicts, the ever-growing threats from narcotics trafficking and terrorism and domestic instability resulting from economic stagnation.

We need your help to obtain more consistent and flexible assistance funding, so that the security of the United States can continue to be ensured against the multiple threats which face us now and surely will face us in the years ahead.

CONTRA FUNDING

Senator **Leahy**. Let me just ask one question here.

Regarding the agreement announced last week for Contra funding; the proposal that was announced by the President and the majority leader and minority leader and Speaker and minority leader in the House. Are you going to have other requests? Are you going to be having another request at this hearing for that money?

Do you foresee coming in here in——

Mr. **Holmes**. It is not part of this.

Senator **Leahy**. You do not see a request for Contra aid as part of this?

Mr. **Holmes**. No.

Senator **Leahy**. Do you know offhand where the money is going to come from?

Mr. **Holmes**. I do not, personally.

Mr. **Bissell**. Do you mean the money to fund for one more year?

Senator **Leahy**. Yes; will it come out of the foreign aid budget? Will it come out of the defense budget?

Mr. **Bissell**. It is to supplement the 150 account request.

Senator **Leahy**. Is that where the money has come from in the past? I have asked five different people from the administration, including those who were involved in the agreement, and nobody seems to know exactly where the money is coming from. I know it is supposed to come from somewhere.

Mr. **Bissell**. We propose that it supplement the 150 account and we are looking for offsets right now in the budget to provide that money. It will be coming up in a supplemental request.

Senator **Leahy**. Offsets from what—the defense budget, the foreign aid budget?

Mr. **Bissell**. That is a good question. It will be proposed as a transfer to the 150 account from the 050 account.

Senator **Leahy**. You understand it would make a difference?

Mr. **Bissell**. Yes; I do.

Senator **Leahy**. I will be asking this question of a number of other people as they come to testify before this committee. Nobody is more in favor, in an era of good will, of joining bipartisan hands. I am all for that. But if it is going to cost money at some point it has got to come from somewhere.

Mr. **Bissell**. I am sure, Mr. Chairman, this would be another example of interagency cooperation that you mentioned in your opening remarks.

OPENING STATEMENT OF RICHARD E. BISSELL

Senator **Leahy**. I suspect it will ultimately be interagency cooperation. Initially it will be interagency guerrilla warfare when somebody finds out how much that is going to cost. You do not have to respond to that.

Go ahead, Mr. Bissell. Please give your statement. Your whole statement of course will be put in the record.

Mr. **Bissell**. Thank you very much. I appreciate the chance to be here this afternoon.

It is a pleasure to follow my colleague, Mr. Holmes, from the Department of State, because the ESF program is an example of where the two different agencies have been able to work together cooperatively so that economic support funds are committed for development purposes with the foreign policy guidance of the Department of State. Our working relationship on this account has been very valuable to both of our organizations.

Let me just say in making a few opening comments, rather than going into my statement itself, that I understand the point that you make about the unpopularity of foreign aid. I think this is something we have to take into account in our consideration of the overall international affairs budget, but particularly with the economic support fund, which is probably the most maligned element in the entire foreign aid budget of the U.S. Government.

For that reason, I think the hearing today is particularly useful and, I hope, part of an ongoing dialog to arrive at an account level which makes sense both to the Congress as well as to the executive branch.

You mentioned in your comments the challenges we faced in the last year from various prospects of peace breaking out in different parts of the world. We experienced this tangibly in terms of pressures on the ESF account. Most recently, we attempted to find what in the overall budget context is really a few pennies to try to help pay for the peacekeeping operations in Namibia. It was truly a struggle, given the way the budget is going.

Senator **Leahy**. And, incidentally, if I can just interject, you probably know, when Secretary Shultz called on me before I took over as chairman and then after he tracked me down in the Middle East to help with the transfer of money, we moved immediately to do just that.

Actually we found the money in a hurry. That is an example of how, if we get the money, it ultimately costs an awful lot less to have peace than to fund wars.

Mr. **Bissell**. That is absolutely right, Mr. Chairman. That is an illustration of the difficulty we face today in being able to pick up on that challenge of peace, which we all want, and be able to respond appropriately. To me that is one of the ideal uses of the economic support fund and we will, I am sure, have additional opportunities in the future with similar kinds of cases.

The economic support fund, though, has a range of other uses which I should mention, so that everybody understands the diverse value of the ESF support we provide. For instance, in countries that are undertaking difficult policy reform programs, we use the ESF for economic stabilization assistance. In countries that are pursuing ambitious development programs, we use ESF to complement and strengthen our project assistance. In countries where heavy debt burdens impede growth, we use the ESF for balance of payments assistance. And in countries that import commodities from the United States, we can use ESF to finance those transactions.

In each of these ways, ESF is a valuable tool for AID in putting together a comprehensive development plan for the countries that we work with. That illustrates, I think, how diverse its nature can be.

It has grown in importance, I must say, over the 1980's, and we have now incorporated these funds into our development planning process. In working with developing country governments to rationalize their economic policies, we find ESF resources an ideal reinforcement of those adjustment programs. They help to ease the transition from rigid, controlled economies to market-based economies, and from the kind of stagnation we see in too many countries into market-led growth.

None of these policy reform programs are easy, but I must say that ESF has been essential in helping to make them happen and succeed.

Overall, our request level is, we think, a modest one, at $3.349 billion. It strikes us as realistic and it is our hope that the committee will be able to fully fund this request. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF HON. RICHARD E. BISSELL

I. INTRODUCTION

Mr. Chairman, members of the Committee, it is a pleasure to appear before you today to discuss the fiscal year 1990 budget request for Economic Support Funds.

The Administration's ESF request for fiscal year 1990 reflects budget priorities and fiscal reality. The $3,349.1 million ESF request level for FY 1990 represents an increase of some two percent over the FY 1989 appropriated level.

As Secretary Baker said when discussing ESF during testimony on the other side of Capitol Hill, "We can't do with any less." We certainly agree. ESF resources are vital to the furtherance of U.S. interests around the globe. Countries of key strategic importance to the U.S. gain strength and stability through our ESF assistance.

ESF serves as a catalyst for economic growth. In many instances, the provision of ESF is tied to the implementation of critical steps in the recipients' economic reform processes. During periods of changing policies and economic adjustment, foreign exchange can be exceptionally scarce. A timely infusion of ESF -- particularly when combined with a larger package of resources from other bilateral and multilateral donors -- can make the difference between success and failure in a country's efforts to improve its economic prospects.

Yet, for all the important contributions of ESF to our economic and strategic interests, two factors have hampered the effectiveness of these resources over the past five years. First is the overall decline in real terms in appropriated levels for ESF since 1985. Despite this decline in overall levels, the amounts going to the largest recipients of ESF have remained static, resulting in a serious drop in ESF assistance to other countries of interest to the U.S. We know that we are not going to return to the ESF levels we enjoyed in 1985 as long as these budget pressures are upon us. The United States cannot hope to achieve as much with drastically lower ESF levels and priorities must be constantly reevaluated. The FY 1990 request for ESF reflects a careful prioritization of global requirements. We believe, therefore, that the request level is the minimum amount necessary to achieve our highest priorities.

The second problem is earmarking: 56% of the ESF account was earmarked in FY 1985 compared to 98% in FY 1989. It is also well known that most, but not all, of the ESF earmarks reflect Administration intentions for the use of those monies. However, earmarking restricts our flexibility to respond to changing circumstances and emergency needs which arise during the fiscal year. It makes the setting of our operating year budget a difficult task, when only a very small portion is unrestricted and many important programs must somehow be accommodated. It restricts our ability to forcefully negotiate the terms and conditions of ESF availability when countries perceive that their levels are assured by way of an earmark.

The worst effects of ESF earmarking were felt in FY 1988, when we were not able to provide any new ESF to Caribbean countries such as the Dominican Republic, Jamaica and Grenada, and very little ESF to other countries of key interest to the U.S. It is clear that earmarking, however well-intentioned, imposes real difficulties on making optimal use of this resource.

I might also mention two other factors which affect the effective management and programming of ESF. The first is deobligation - reobligation authority, which was rescinded for ESF in the FY 1989 appropriations legislation. Deob-reob authority, requested at $18 million in FY 1990, has proven to be a useful tool in managing ESF financed projects and responding to changing priorities. We need the flexibility to pull funds out of those projects which have run off course and reapply the funds to other, well-functioning activities. Secondly, the availability of ESF for only a finite period can be a problem. In FY 1990, we are again requesting no-year obligational authority for ESF. The current two-year authority, especially when combined with earmarking of country levels, does not always provide the flexibility required to help resolve problems which arise when recipient governments are unable to implement reforms on a timely basis. While two-year authority does provide more flexibility than one-year, it still does not allow for the sustained leverage of no-year authority.

The importance of ESF can be seen through specific country examples of the manner in which ESF is used to promote development, stability, growth and democracy.

II. ESF PROGRAM OBJECTIVES

A. Economic Stability, Growth and Development

Balance of payments and structural adjustment programs involving ESF program assistance allow the U.S. Government to execute a rapid response to the needs of recipient countries in financial difficulty. Once economic stability is achieved and the proper policies are in place, a country can be launched on the path of sustained economic growth. A structural adjustment program can have a considerable developmental impact by creating stability and encouraging growth-oriented policies, thereby attacking the underlying problems which inhibit economic development.

Projectized ESF assistance often complements program assistance by addressing development problems directly. Approximately one-third of ESF is used for project assistance. In fact, if the security-based cash transfers for developed countries (Israel, Turkey and Portugal) are excluded from the total, more than fifty percent of the remaining ESF is devoted to project activities.

Structural adjustment support using cash assistance provides the U.S. Government with a tool to encourage policy reform. Disbursement of funds are oftentimes conditioned on specific host country actions to promote economic stabilization, as well as actions to liberalize the economy to bring about economic development benefiting the population at large. Such actions usually focus on changing inappropriate policies affecting such areas as domestic interest rates, exchange rates and public sector spending. Policy reform complements and strengthens the impact of development projects.

Examples where the U.S. has used ESF structural adjustment and balance of payments assistance to encourage important policy reforms include:

Costa Rica: During the period between 1982 to 1986, in particular, important reforms were undertaken at the encouragement of the U.S., which averted a serious financial crisis brought on by an unmanageable external debt burden and excessive public sector spending. The ESF supported program resulted in:

The introduction of a flexible exchange rate system;

Reduction of the public sector deficit by half;

Private sector banks being given access to lines of credit from the central bank.

Bolivia: Between 1985 and 1987, ESF balance of payments and structural adjustment support was indispensable in assisting the Bolivian Government to restore financial stability in the country by:

Liberalizing exchange rates;

Controlling public sector spending;

Divesting a portion of the state mining company, a major drain on the budget.

Senegal: A structural adjustment program using ESF cash program assistance and associated local currency funds has supported extensive economic policy reforms liberalizing agricultural markets, reducing fiscal deficits and rationalizing the tax system. This program has complemented DA and DFA-funded institutional strengthening programs. A.I.D.'s cash grants have supported a range of policy reforms which include:

Privatizing the importation of rice;

Lifting government constraints on the operation of agricultural input and production markets;

Reducing fiscal losses on agricultural subsidies;

Providing incentives for private sector agro-industries.

Kenya: ESF commodity import and balance of payments assistance has supported significant progress in the liberalization of Kenya's agricultural fertilizer sector. Examples of this progress include:

The number of private sector fertilizer importers and the small farmholder portion of total fertilizer consumption have trebled;

Foreign exchange is being made available for fertilizer imports on a timely basis due to improved Kenyan government and private sector planning;

A market-pricing mechanism for fertilizer has been established;

Fertilizer distribution is being privatized and sales have been demonopolized, resulting in a 90% increase in fertilizer utilization by small farmers.

B. Promotion of Democracy

The newly emerging democracies, like other developing countries, have experienced shortfalls in foreign exchange earnings due to declines in export prices and heavy debt burdens. Unlike project assistance, which transfers resources only as activities are implemented, cash program assistance can provide fast-disbursing financial resources to countries in need of immediate balance of payments support. These funds can be of special importance when they serve to cushion the transition to a democratic government.

Some examples of how ESF program assistance is successfully being used to assist new democracies, include:

Philippines: Fast-disbursing ESF assistance has supported a comprehensive economic adjustment program implemented by the Aquino government. ESF assistance has helped in:

Reversing the decline in GNP;

Achieving a 6% growth rate in 1987 and 1988;

Increasing private sector investment;

Controlling inflation since 1986.

I might add that this cash aid to the Philippines complements a large projectized ESF portfolio which, among other things, funds improvements in rural roads, schools and other infrastructure.

Guatemala: ESF cash program assistance has been used over the past three years to support the new democratic government's program for tackling severe economic problems immediately and successfully. With ESF assistance the government has:

Rationalized the exchange rate system;

Reduced the public sector deficit;

Lifted price controls and regulatory constraints which had stifled exports and investments;

Established an ESF local currency-supported development budget for funding improved social service programs for the poor.

III. COORDINATION WITH OTHER DONORS

Our use of cash program assistance for balance of payments and structural adjustment programs reinforces the efforts of the other donors, particularly multilateral financial institutions. The World Bank, the IMF and other international financial institutions also provide fast disbursing assistance to developing nations in support of policy reform in key sectors of their economies. While not always in lockstep with these other donors, A.I.D. often has similar objectives and designs similar conditionality to achieve those objectives. Our resources, when leveraged with those of other donors, can make a crucial difference in bringing about policy reform.

In the Central American countries of Costa Rica, Honduras and Guatemala, for example, A.I.D. has been working particularly closely with these governments and other donors to coordinate development and implementation of structural adjustment programs. In the case of Guatemala, for instance, A.I.D. has supported a reform program for improving government management and finances and increasing incentives for exports. Economic and financial management have improved considerably. Progress has been sufficient to attract assistance, for the first time in many years, from other donors such as the IMF, the World Bank and Japan, thus lessening the role of on U.S. aid in overall financing requirements.

Another example, which has been in the news recently, is Egypt where we are working closely with other donors and the government to try to implement a difficult economic reform program. There have been roadblocks, but we are determined to forge ahead.

IV. POTENTIAL DIVERSION OF ESF RESOURCES

When testifying before this subcommittee last month, the Administrator explained in some detail the priority he has given to the issue of accountability. His commitment to strengthening the financial and personnel management processes within A.I.D. has been, and will continue to be strongly felt by those administering our ESF resources. Working with senior managers in A.I.D. and our Inspector General, a number of measures have been established to guard against potential misuse of ESF funds. We are satisfied that much progress has been made, but our search will continue for additional safeguards to ensure that ESF resources are applied to their intended purposes.

The measures and procedures which have served us well in assuring that ESF funds are not diverted for unintended uses begin with comprehensive and detailed written agreements between the United States and recipient countries, clearly defining how the funds are to be used. Internally, our programs are systematically monitored by vulnerability assessments and control reviews, so that potential weaknesses can be identified before problems occur. Also, frequent audits of ESF programs are undertaken by the A.I.D. Inspector General and the General Accounting Office, in addition to independent evaluations which are either conducted or arranged by A.I.D.

Finally, as is well known to the Congress, we are implementing the special account provisions of the FY 1987 and FY 1988 continuing resolutions. Under this system cash assistance is wired to separate accounts, and not "commingled" with other international reserves, making the tracking of their use possible.

VI. CONCLUSION

ESF has proven to be an essential instrument for our foreign policy and in our foreign assistance programs. To be sustainable in the long run, development requires sound economic policies. Only economic growth can provide the economic and financial underpinnings that encourages development and accelerates progress in health, agricultural productivity, and education. Program assistance has been invaluable in supporting new democracies and in promoting the achievement of economic growth and long term development goals.

ESF-funded projects, which comprise a substantial portion of our total ESF portfolio, directly address many of the same types of problems to which our DA projects are directed.

Finally, measures of accountability are in place to minimize diversion and misuse of resources.

Thank you Mr. Chairman. I will be happy to discuss any of these points with you and answer your questions.

STATEMENT OF LT. GEN. CHARLES W. BROWN

Senator **Leahy**. General Brown.

General **Brown**. Mr. Chairman, thank you. I too shall be submitting a lengthy statement for the record and would just like to make some brief remarks.

Senator Kasten mentioned the cooperative spirit in this administration. I would just like to point out within the 150 account you have all three of us here today for the first time—the AID on the left, Defense on the right, and State occupying the moderate position in the middle.

Senator **Leahy**. I was thinking that. I was not going to say it. [Laughter.]

General **Brown**. Mr. Chairman, military assistance faces several challenges from various quarters. Adequate resources is one of the greatest challenges. Being a military man, I must have charts when I brief. We have one available here, as you will see, which will also be submitted for the record.

Senator **Leahy**. The old FMSCR/MAP.

General **Brown**. As you can see from both charts, we are in a declining mode since 1984, while the percentage of the budget earmarked for a few favorite programs continues to increase. As a result, many important countries are now seriously underfunded and others are not funded at all.

There is also the continuing challenge to make the FMS process more responsive and accountable. I call it modernizing and streamlining and we are working hard on it and we are beginning to make some progress. It is a massive effort that we have undertaken and at the appropriate time I would be happy to brief your staff on what we are trying to do.

The administration's fiscal year 1990 military assistance budget request is an important part of a successful response to this challenge. The administration is requesting $5.1 billion for military assistance for fiscal year 1990. This represents a 7-percent increase over the 1989 appropriation.

I recognize that such an increase may seem excessive in the prevailing budget climate, but I believe that the committee deserves to know what we judge to be needed within our area of expertise, in other words, the programmatic military requirements of our friends and allies.

I would like to second Ambassador Holmes' discussion of the important needs of our friends and allies. I would also like to draw attention to the additional $7 million we are requesting for that most important program, which is also highly cost-effective, and I am referring to the International Military Education and Training Program.

I further ask that the committee support removal of the GNP per capita restrictions on the provision of IMET. These restrictions, intended to support our policy of having industrialized countries assume the travel and living expenses of their IMET students, has had the perverse effect of also restricting assistance to some developing nations.

Senator Leahy. Give me that one again.

General Brown. This was instituted last year, wherein those nations that had a per capita income of over, I think it was, $2,400—that is an approximate figure—would be required to pay their travel and living expenses. That figure may have been a bit arbitrary, but what has happened is it has caught some nations that show per capita income like that, but are in fact very underdeveloped nations. I think we need a bit more flexibility.

We certainly support the concept.

ADJUSTING THE GRANT/LOAN FORMULA

Senator Leahy. You understand that some of these countries, the ones that can afford it, ought to be able to pay. I am also being responsive to some of the criticism we get on foreign aid, however defined. If the formula needs some adjusting I would be happy to discuss that. But I think we have to have some way to be able to get political consensus on some of these programs and some way to show that there really is a difference in a country fairly well off than one that is not.

I will be happy to discuss the formula.

General Brown. Mr. Chairman, I recognize that the overall budget situation could be even tighter this year than in years past.

Senator Leahy. For example, we give IMET training to countries like Brunei, Austria, Singapore. Most people would say that those countries do not need this funding.

General Brown. That is true. They are above the line within the situation that I just described. But beyond that it becomes a question of do we want a military relationship with those particular countries.

Senator Leahy. Mr. Gaffney says not Brunei—Singapore, then.

General Brown. Yes; Singapore.

Senator Leahy. I believe they were on there. Those kinds of situations just wave the red flag and make bells go off.

General Brown. In my view, the dialog is why those countries are on there.

Senator Leahy. I realize there may be special situations.

EARMARKING

General **Brown**. Getting back to the budget at hand, if funding for this year cannot be increased some very difficult choices are going to have to be made. This will put a premium on substantially reducing, if not eliminating earmarks. In my view, earmarks have wreaked havoc on our military system's efforts over the past years much more than declining funding. Substantially reducing earmarking would do much to mitigate the damage from these reduced funds.

The administration will soon submit to the Congress its security assistance legislative initiatives. Of course, these initiatives will be taken up by the Foreign Relations Committee, but I would like to take this opportunity to appraise you of two initiatives of particular importance to military assistance.

Looking at the chart, we have one called fair pricing, which would reduce add-on charges to U.S. defense sales, particularly for those financed with U.S. grant assistance. As such, it would significantly stretch scarce military assistance resources. This subcommittee has supported fair pricing in the past, and we have greatly appreciated that and hope that you will continue to support us.

Second, another program is the extension and improvement of the southern region amendment, which is another high priority. The SRA authorizes the President to provide on a no-cost basis excess U.S. defense equipment to security assistance countries in NATO's southern tier. SRA provides a valuable means to strengthen coalitions of defense in NATO at no cost to the United States, particularly in this time of scarce military resources. We propose that the SRA authority be improved and extended.

Mr. Chairman, I believe we have a well-balanced budget request and legislative program this year. It will shore up and sustain our lagging military assistance effort. I ask for the committee's support for adequate funding and flexibility for military assistance in fiscal year 1990.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF LT. GEN. CHARLES W. BROWN

Mr. Chairman, it is a pleasure to appear before your subcommittee today to testify on military assistance. I look forward to working with you through this year's appropriations process to provide the resources and flexibility needed for an effective military assistance effort in FY 1990 and beyond.

Objectives

Military assistance is an integral part of the overall U.S. national security posture. As you know, it is intended primarily to further U.S. national security objectives.

Military assistance programs, including cash financed foreign military sales, help friends and allies to deter or manage aggression against common interests through their own forces. Our programs have been highly successful in many instances.

Military assistance also enhances coalition defense by helping certain allies shoulder a greater share of the common defense burden, as with Turkey and Portugal, and by supporting access to key foreign military facilities as, for example, in the Philippines and along the Horn of Africa.

Military assistance further promotes stability by forging close ties with key countries and contributing to stable regional balances of power. For example, our programs with Israel, Egypt, and Jordan are highly important to the preservation of peace in that volatile area of the world.

Finally, military assistance, particularly through the IMET program, builds useful military-to-military relations with a wide variety of countries across the globe. These relationships contribute to the development of professional military organizations; respect for democratic processes and human rights; and provide useful access to influential military and political leaders.

Our military assistance programs exist to serve the national security and foreign policy objectives of this country, and are so guided. These programs also confer substantial economic benefits upon the U.S. Almost all of our assistance monies are spent here at home. About two-thirds of our foreign military sales, however, are cash financed by the purchasing countries themselves. Defense sales make a significant contribution to U.S. economic activity and international trade. Military assistance and sales create or preserve hundreds of thousands of American jobs and generate significant amounts of revenue for the U.S. government. Defense is one of the relatively few areas where the U.S. has consistently enjoyed an export advantage, although this advantage has eroded over the last several years. Sales also contribute to the preservation of the U.S. defense industrial base, and enable the Department of Defense to realize economies of scale savings in procurement for our own forces.

Challenges

Military assistance faces challenges from various quarters. Adequate resources is one of the greatest challenges. (Chart 1) As this graphic shows, assistance funding continues to decline, while the percentage of the budget earmarked for a few favored programs increases. Funding for military sales financing declined by over 26 percent since FY 1984, while the percentage of funding earmarked has increased from 49 percent to almost 94 percent. Consequently, non-earmarked funding has declined by over 90 percent over the same period. As a result, we have had to zero-out funding to numerous countries and drastically reduce funding for the remaining non-earmarked programs. Funding for the International Military Education and Training Program has also been sharply reduced.

Unfortunately, our friends and allies' assistance needs in most cases have not declined. Indeed, in some cases, the needs have increased. Even as peace and stability are gaining in some parts of the world, violence and instability continue or are on the rise in others. The U.S. also faces difficulties in some countries with maintaining access to foreign military facilities that are highly important to our regional defense strategies.

There is also the continuing challenge to make the FMS system more responsive and accountable. I call it streamlining, and it includes more responsive development, implementation and execution of programs; better financial accounting systems, and more effective utilization of management information. Streamlining is one of my highest priorities, and I know effective management of resources is an issue of importance to this committee as well as to our friends and allies. We are working hard on the matter, and are making progress in this long-term effort.

The challenges I have just outlined have important implications for U.S. national security. We must demonstrate the will and innovation to respond successfully. The Administration's FY90 military assistance budget request is an important part of a successful response.

FY 1990 Budget

The Administration is requesting $5.1219 billion for military assistance in FY 1990, which breaks down as follows: $5.027 billion for Foreign Military Sales Financing (FMSF); $40.432 million for the general administrative costs of the Military Assistance Program (MAP); and $54.5 million for International Military Education and Training (IMET).

As in last year's request, the Administration is proposing that all military assistance be provided on a grant basis. This is responsive to the economic situations of the intended recipient countries. This is also in keeping with Congress' reluctance to increase the debt burden of developing countries, as reflected in the increasing grant component of military sales financing appropriations over the last several years (91% in FY 1989).

The Administration has departed from previous practice this year by requesting that all military sales financing for countries be provided through the Foreign Military Sales Financing program and none through the Military Assistance Program. As FMSF has increasingly made a transition from a loan to a grant program, the distinctions between it and all-grant MAP have receded. Having requested an all-grant financing program for FY 1990, the Administration took this opportunity to simplify the presentation and budgeting of the financing effort by consolidating it into one program. Funding has been requested for MAP only to cover administrative costs of military assistance.

The Administration has also requested that the availability of FMSF for financing direct commercial purchases continue to be available only to countries with sufficiently developed acquisition systems and infrastructure to ensure that the funds are utilized in a cost-effective manner. As such, it has proposed that the availability of FY 1990 FMSF funds for financing of direct commercial purchases be restricted to those countries for whom the Administration requested assistance under the Foreign Military Sales Financing program for FY 1989.

The Administration's request for military assistance represents a $142.4 million or 2.9 percent increase over the FY 1989 request and a $334.8 million or 7.0 percent increase over the FY 1989 appropriation. I realize that we are in a difficult budgetary period, but I believe that the committee deserves to know what we judge is needed in our area of expertise: the programmatic military requirements of important friends and allies. (Chart 2) Furthermore, as can be seen on this graphic, the Administration's overall foreign assistance request reflects the traditional 35 percent - 65 percent balance between military and economic assistance. (Chart 3) And, as this graphic shows, if one excludes the substantial portion of the worldwide foreign assistance budget, military and economic, allocated to Israel and Egypt, the military portion of foreign assistance for the rest of the world is much more modest -- less than 14 percent.

The increases over the FY 1989 allocation are concentrated in a few high priority countries. The largest increase is for the Philippines. In support of the democratic government of Mrs. Aquino and our continued access to bases in the Philippines, the Administration agreed to a best efforts pledge of $400 million in military assistance, as well as larger amounts of economic assistance, during the next two years. The FY 1990 military assistance share of this best efforts pledge is $200M, representing a $75M increase over the FY 1989 level. This assistance will be used to purchase support items, maintenance, training, and new equipment needed to combat the Philippines' insurgency. It is important to the success of the Aquino government and democracy generally in the Philippines, as well as to our continued access to Philippines military facilities beyond 1991, that our best efforts pledge be supported.

The next largest increase -- of $50 million -- is for Turkey. Strategically-situated and dependable, Turkey is a high priority assistance country. We continue to support, along with other NATO allies such as Germany and the

Netherlands, the modernization of Turkey's largely outdated equipment, though at a far slower pace than needed. The Turkish armed forces estimate that a timely modernization program would require $2 billion of military assistance a year. Of course, as the Turks fully realize, that level of assistance is more than the U.S. or our allies are in a position to provide. It is very important, however, that we increase our military assistance to this very important ally. Turkey's proposed FY90 financing would be used primarily to continue the on-going M48 tank upgrade and F-16 production programs and to support older, existing U.S.-origin equipment.

We should not allow assistance for Turkey and other countries to suffer by tying Turkey's assistance in any way to the level of assistance we provide to another important NATO ally, Greece. The 7/10 ratio in particular, although it is traditional, has no programmatic or military justification.

We are also requesting a $25 million increase for Portugal for a total FY90 request of $125 million in grant financing. The U.S. and Portuguese governments recently concluded a highly successful review of the Portuguese military and economic assistance requirements. The understandings reached during this review will significantly enhance Portuguese defense capabilities in support of NATO and secure continued cordial and productive security cooperation between our two countries for the foreseeable future.

As part of the understandings reached with the Portuguese, the U.S. undertook to do its best to provide Portugal with some of the defense items it needs to carry out its NATO defense responsibilities, including defense of the critical Azores facilities. We plan to fill these requirements as much as possible through the transfer of excess U.S. equipment under the authority of the Southern Region Amendment (SRA). To this end, we will request Congress to indefinitely extend the SRA authority, which is scheduled to expire at the end of this year. SRA authority, however, is not sufficient -- there is not enough nor the proper kind of excess equipment available to meet all of Portugal's priority requirements. Portugal will require in excess of $100M of military assistance financing for each of the next five years. The proposed FY90 financing for Portugal will be used to continue the on-going Portuguese frigate program, support existing equipment, and procure interceptor aircraft, air defense and other needed items.

For Pakistan, we are once again requesting $240 million in grant financing, which represents a $10 million increase over the FY89 actual level. Our assistance program with Pakistan has been an important factor in Pakistan's ability to oppose the Soviet presence in Afghanistan. The turbulence on Pakistan's border did not end with the Soviet withdrawal, however. Pakistan still needs our help. A continued vigorous U.S. assistance program is also intended as a tangible demonstration of support to the Bhutto government as it continues to consolidate democratic processes and institutions. I therefore urge the Congress to support continued assistance for Pakistan at the request levels.

In El Salvador, we are seeking an increase of $12 million over the FY 1989 allocation. As the committee is well aware, our commitment to help El Salvador to build a durable democracy while opposing the FMLN's efforts to impose a communist regime by the force of arms remains firm. We support efforts to reach a peaceful resolution of the insurgency in El Salvador, and hope that the most recent efforts bear fruit. Nevertheless, the security situation remains serious, and the insurgent forces have intensified their attacks on civilian, as well as military, targets.

Because of overall funding reductions and increased earmarks, we have been unable to cover fully the sustainment requirements of the Salvadoran armed forces during the past two years. Consequently, reserve stocks have been depleted and needed maintenance put off. El Salvador can not continue to go underfunded without risk to its counter-insurgency effort. The $97 million we seek for El Salvador in FY 1990 is the amount that the U.S. Southern Command determined after a comprehensive survey to be El Salvador's minimum sustainment requirements at the current level of operations. The Salvadorans optimally require $125 million.

For Honduras we are again requesting $60 million in grant military financing, an increase of $20 million over the FY89 actual level. Increased assistance is needed to continue the modernization of Honduran forces. U.S. assistance to Honduras clearly demonstrates the strong commitment of the United States to the defense of democratic development and our own security interests throughout Central America. Honduras' FY90 assistance will fund training and maintenance for previously furnished systems, payment for the replacement of obsolescent Super Mysteres with F-5's, and improvement of naval coastal patrol through acquisition of amphibious aircraft and improved patrol boats.

For Jordan, we are requesting an increase of $38 million over its FY 1989 allocation for a total of $48 million in grant financing, the same amount as requested in FY 1989. Jordan is a long-time friend with a pivotal role to play in Arab-Israeli relations. For many years, the U.S. has been an important source of assistance to Jordan and has enjoyed a close and cooperative relationship with the Jordanians. Over the last several years, however, our assistance for Jordan has been seriously eroded under the pressure of declining worldwide assistance levels and sharply increased earmarking. From FY84 to FY88, U.S. military financing for Jordan declined by about $89 million or 77 percent. This year, assistance for Jordan had to be slashed another 62 percent. The reduction of military assistance has reduced substantially Jordan's ability to sustain already delivered U.S. systems.

We need to restore Jordan to earlier, higher levels of assistance. The financing requested for Jordan in FY 1990 would be used to support and upgrade previously-furnished U.S. equipment and to finance limited quantities of urgently needed supplies.

For Thailand in FY90, we are requesting $45 million in grant financing, the same level as the President's FY89 request, or $23 million above the FY89 actual level.

Thailand, like Jordan, is a long-time friend and ally, occupying a key position in an important and volatile part of the world. Like Jordan, Thailand bore the brunt of the funding reductions in FY 1989 necessitated by worldwide funding reductions and increased earmarking. Military financing for Thailand, already down 57 percent from FY 1985, dropped a further 49 percent last year. It is in our interest to preserve our close security relationship and help meet the substantial security requirements of our best friend in an area of continuing strategic and increasing economic concern to us. Our FY 90 request would restore Thailand to its FY 1988 assistance level in order to provide for support and modernization of Thai forces.

We are requesting an additional $21 million above FY89 actual levels for countries in South America and the Caribbean with serious narcotics and, in some cases, related insurgency problems. The biggest increase in this group is for Colombia, where the activities of drug barons and insurgent groups, sometimes working together, threaten the very survival of the legal system and democratic government. The next largest increase is sought for Peru, which is in a situation analogous to Colombia's. Increases are also sought for Bolivia and the states of the Eastern Caribbean.

The narcotics problem is a complicated and, it often seems, an intractable one. There is an important role for international programs designed to get at the supply end of the problem.

Efforts to date have involved mostly work with local law enforcement people, eradication, and the very occasional and temporary use of U. S. military transportation to assist the law enforcement people. We believe the local military forces are ready to and must take a larger role in these efforts. They are the only forces large enough to do it; they have the infrastructure; they can act as a disciplined and trained force; and it is far better that they take this role rather than U.S. combat forces. We are beginning to see indications that institutional pride can overcome the adverse circumstances which tend to restrain military involvement. But, in the struggle against the traffic in illicit drugs, military establishments need our assistance in funding of materiel, training, and support if they are to expand their role. This is not to say that the military can supplant the local police forces, but they have a role to play.

At the same time, we must keep in mind that narcotics trafficking is not the only security problem faced by these countries. As mentioned above, Colombia and Peru also have serious insurgency problems with roots and objectives independent of the drug barons, although tactical alliances can and do exist between those groups. Insurgency is primarily a military problem, while narcotics has been primarily a police matter. We seek through our military assistance programs to enhance these countries military forces' ability both to combat insurgencies and effectively contribute to the anti-narcotics effort.

For the most part, lesser increases are also sought to restore other smaller but nevertheless valuable programs, mostly in Latin America and Africa, that were unfunded this year or almost so because of the scarcity of resources.

The International Military Education and Training program is also a very important part of our military assistance request. It has been generally recognized as our most cost-effective foreign assistance program. IMET is a people program that establishes valuable personal relationships and lines of communication with foreign military personnel, many of whom rise to prominent positions within their countries. By studying in the United States, foreign military students learn our ways and are exposed to our values of support for democracy and personal integrity based on pride in military professionalism. They, in turn, help spread these values in their countries by sharing their experiences with military and civilian counterparts. It also provides friends and allies with specialized knowledge and skills that improve their utilization of U.S. equipment and management of forces.

We are asking for a $7.1 million increase for this important program for FY 1990. This would restore IMET to its earlier funding level, and help make up for shortfalls in professional military education and training. There would be broad participation in the increase, with the largest increases going to such important countries as Colombia, Jordan, Morocco, and the Philippines.

With regard to IMET for so-called "high-income" countries, we are sensitive to concerns that countries pay their fair share. We have long had a cost-sharing policy to insist that countries pay their travel and living allowances, if they can. The legislating of this in last year's appropriations bill was recognition of this cost-sharing policy while also continuing to recognize that there are benefits to attracting military students from high income countries into our Professional Military Education system. But the threshold legislated had a rather indiscriminate effect.

This committee has, in the past, expressed some concern about IMET for "advanced, industrialized" nations, but the threshold in the appropriations bill covered a number of countries which could hardly be considered to be in this category, such as Gabon or Trinidad-Tobago. Since we want to maximize the amount of IMET which is indeed spent for tuition, we would like the opportunity to apply regulatory procedures which ensure that the industrialized nations do in fact pay their travel and living allowances, but leaves us discretion for countries which are not. For these reasons, we would like your support against the imposition of a per capita GNP threshold in legislation.

The Administration is also requesting $325 million in obligation authority for the Special Defense Acquisition Fund (SDAF). This Fund allows the U.S. to procure defense equipment in anticipation of foreign military sales, thereby substantially reducing lead times on certain high demand and/or particularly long-lead time items. In doing this, SDAF often serves other useful purposes, such as achieving procurement economies for U.S. forces by increasing unit purchases or keeping production lines warm between orders. SDAF is not an assistance program; its equipment is sold at full price. Of course, countries receiving U.S. financing assistance may use those funds to purchase from SDAF, just as they may use them for any other allowable U.S. defense purchases.

SDAF operates on a revolving fund principle, recycling receipts from the sale of SDAF equipment to purchase new equipment. The Fund was capitalized to $1.07 billion earlier this decade, so it requires no new funds nor appropriations to function. However, it can only obligate funds in any year up to the amount authorized by Congress. During the past two years, Congress has authorized new SDAF obligations substantially below the amount available for obligation, despite the fact that higher obligation levels involve no budget authority and have little impact on outlays. Congressional authorization of $325 million in SDAF obligational authority for FY90 would enable SDAF to be more fully utilized to support national security interests.

Mr. Chairman, I believe that I have outlined for the committee some very important reasons why military assistance funding needs to be increased in FY 1990. I recognize that the overall budget situation could be even tighter this year than in years past, and that foreign assistance could be reduced again if that proves to be the case. If the President's FY90 Request is not granted, some very difficult choices will have to be made. These could be choices among best efforts pledges to the Philippines and Portugal, continued support for the democracy and counter-insurgency in Central America, preserving programs with Jordan and Thailand, and the small increases targeted for South America and the Eastern Caribbean, to mention a few.

I ask for your support for the President's FY90 request for military assistance. I also ask for your continued support in reducing earmarks.

Earmarks, particularly in the context of declining funding levels, have greatly complicated our military assistance effort over the past several years. Earmarking a few favored programs while appropriating total funding far below the requested amounts has caused important countries with real military requirements and objectives to be neglected. In many countries, friendly forces engaged in on-going conflicts suffer and previously-furnished U.S. equipment languishes for lack of funds to support it because earmarks allow unused assistance funds to accumulate or far less urgent requirements to be filled in other programs. It only makes sense that, when resources are scarce, more care should be given to ensuring that they are allocated to meet well planned, validated military, not political, requirements. The damage borne by our military assistance effort this year would have been far less if the Administration had been given greater flexibility in the allocation of scarce funds. Likewise, restraint on earmarking would do much to mitigate the damage that would be caused by FY 1990 appropriations that fall short of the Administration's budget request.

Legislative Initiatives

The Administration will soon submit to the Congress its security assistance legislative initiatives. Of course, these initiatives will be taken up by your colleagues in the Foreign Relations Committee. I would just like to take this opportunity to apprise you of these initiatives.

Fair Pricing is the first initiative. (Chart 4) It would reduce some of the add-on charges to U.S. defense sales, particularly for those sales that are financed with U.S. grant assistance. As such, it would stretch scarce military assistance resources. We also believe that it would help prevent the loss of U.S. defense sales to other suppliers, and, with it, the loss of U.S. access and influence in important countries throughout the world and the substantial economic benefits that sales generate for the U.S.

This subcommittee has supported Fair Pricing in each of the last two years, and we have greatly appreciated that support. Because of this subcommittee's efforts, Fair Pricing made it to Conference last year. Unfortunately, it was not fully enacted. Instead, cost reductions were enacted for the recent Israeli and Egyptian F-16 purchases. Also enacted was a provision exempting the cost of military salaries from the price of defense services cases wholly financed with grant FMSF funds just as had been done for MAP a few years ago. Hoping to build upon those achievements, we made some helpful changes to the Fair Pricing initiative and have resubmitted it for consideration this year.

(Chart 5) In Fair Pricing, we would no longer charge countries for non-recurring research, development, and production costs if their purchases are financed with U.S. grant assistance. These are costs that the Defense Department has already incurred to develop and procure systems for our own forces. We would also no longer charge any country for the depreciation cost of U.S. plant and tooling (asset use) involved in the production of these systems. We estimate that these changes would stretch the buying power of grant financing assistance we provide to friends and allies by 4 percent on average.

Fair Pricing would also terminate military assistance liability for some relatively fixed DoD administrative overhead costs. For example, DoD would not be reimbursed for the salaries of military personnel involved in program administration, nor would we cover unfunded civilian retirement costs. The effect of these changes is to obviate the need to increase the current 3 percent administrative surcharge on the value of all FMS cases.

Because of the decline of major system sales since the middle of this decade without a corresponding reduction in workload, the current 3 percent administrative surcharge is no longer sufficient to cover the administrative costs for which the military assistance program is legally liable. This is true despite the fact that in 1987 we added a new 3.1 percent administrative surcharge to all logistics cases and reduced the Services' administrative budgets by about $65 million or 16 percent. Unless Fair Pricing is enacted, we will have to increase the administrative surcharge, probably to 5 percent. An increase, especially of that magnitude, would further erode already scarce military assistance resources. Moreover, we expect that such an increase would drive countries away from the FMS system, and probably initiate a vicious cycle of declining sales and increasing surcharges. Consequently, the U.S. will lose the access and influence it achieves through assistance and cash sales, as well as the substantial contribution of sales to our defense industrial base; economies of scale in DoD procurement; trade; and jobs.

Fair Pricing does involve a cost to the Defense Department budget. We estimate this cost to be about $156 million in a typical year, of which $60 million represents reduced reimbursements to the Military Personnel accounts and the remaining $96 million is reduced payments into the Treasury's miscellaneous receipts account that in turn are credited back to the Defense budget as offsetting receipts.

The Defense Department, in agreement with former Secretary of State Shultz and now Secretary Baker, is prepared to absorb these costs. Fair Pricing has been endorsed by current Acting Secretary of Defense Taft and former Secretaries Carlucci and Weinberger during their tenure as a cost-effective reallocation of U.S. defense resources. Fair Pricing is an urgently needed response to the serious problems posed to our security interests by declining assistance funding and sales.

Extension and improvement of the Southern Region Amendment is the second initiative of which I would like to apprise you. The Southern Region Amendment, as originally enacted, authorized the President to provide, on a no-cost basis, excess or programmed to be excess U.S. defense equipment to security assistance countries in NATO's southern tier that were integrated into NATO's military infrastructure. The following year, Congress amended this authority to extend eligibility to Israel and Egypt while restricting the definition of available equipment. Congress also added a provision to appropriations legislation, which it has subsequently renewed, to require that any SRA assistance provided to Greece and Turkey be provided in the same ratio as their military assistance funding.

The original SRA authority was very useful. Substantial amounts of needed equipment were provided to Greece, Portugal, and Turkey. Subsequent modification of the authority has greatly reduced its usefulness, particularly for Greece and Turkey. The extension of the 7:10 ratio to SRA has prevented us from offering any additional equipment to Greece and Turkey in part because of the difficulty of putting together a package of useful items that corresponds to that ratio and other related restrictions. The more restrictive definition of excess equipment has also significantly limited the items we can offer to eligible countries.

SRA provides a valuable means to strengthen coalition defense in NATO at little or no cost to the U.S., particularly in these times of scarce military assistance funding resources. It is also highly supportive of ongoing modernization along NATO's southern tier. We propose that the SRA authority be extended indefinitely. We further propose that the eligibility for SRA assistance be returned to the original intention, whereby only NATO southern tier countries are eligible. I also ask for your assistance in avoiding a continuation of the 7:10 ratio requirements for

SRA assistance to Greece and Turkey, which have appeared in appropriations legislation, so that SRA can resume being a benefit to these countries.

Conclusion

Mr. Chairman, I believe that we have a well-justified budget and legislative program that will significantly enhance our military assistance effort. I reiterate my request for this committee's support for adequate funding and flexibility for military assistance in FY 1990. Thank you.

Chart 1

FMSCR/MAP EARMARKED BY CONGRESS

FY 1980 – FY 1989

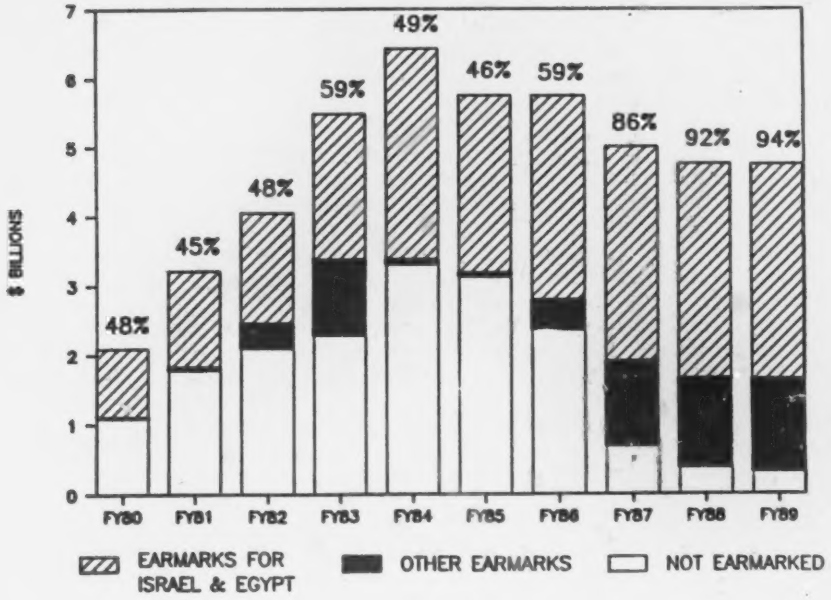
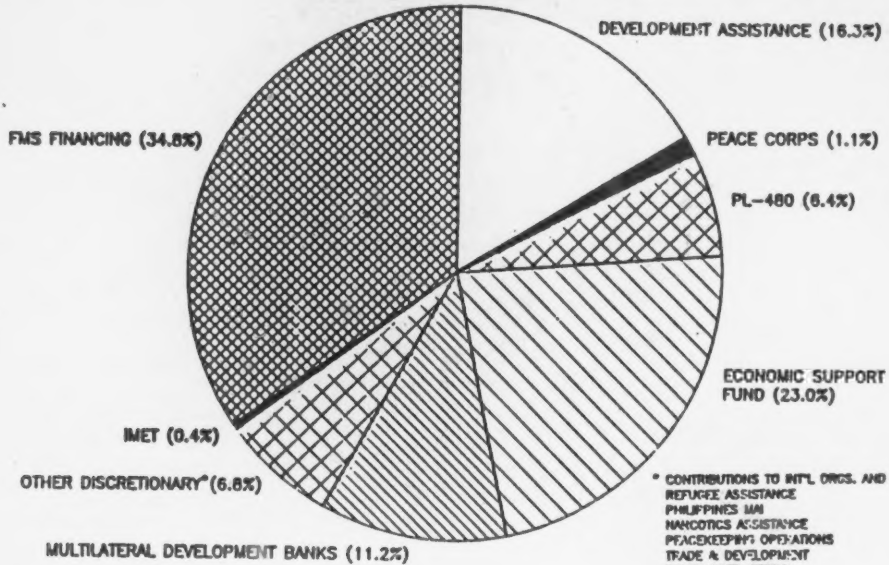


Chart 2

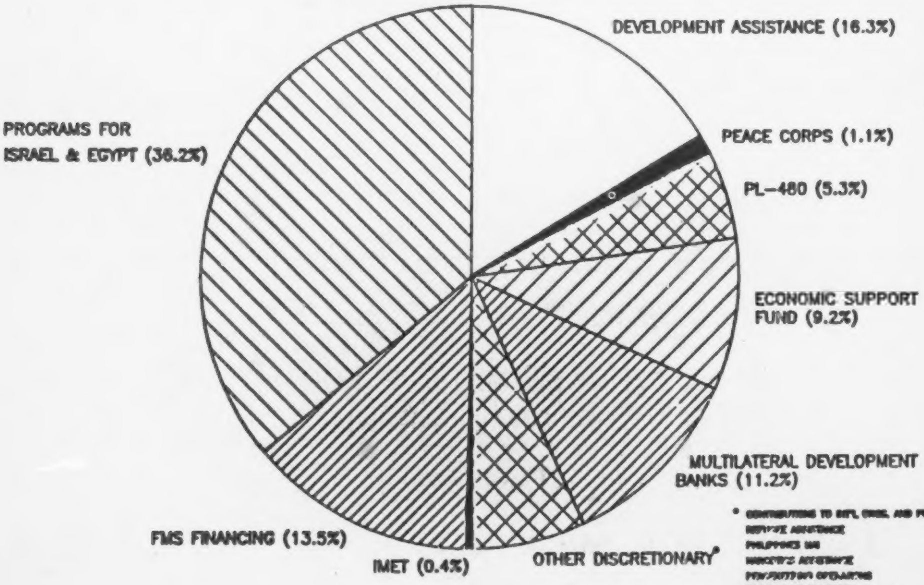
FY 1990 FOREIGN ASSISTANCE REQUEST
$14.6 BILLION



* CONTRIBUTIONS TO INT'L ORGS. AND PROGS.
REFUGEE ASSISTANCE
PHILIPPINES MAI
NARCOTICS ASSISTANCE
PEACEKEEPING OPERATIONS
TRADE & DEVELOPMENT
INTER-AMER. FOUND.
ANTI-TERRORISM
AFRICAN DEV. FOUND.

Chart 3

FY 1990 FOREIGN ASSISTANCE REQUEST
$14.6 BILLION



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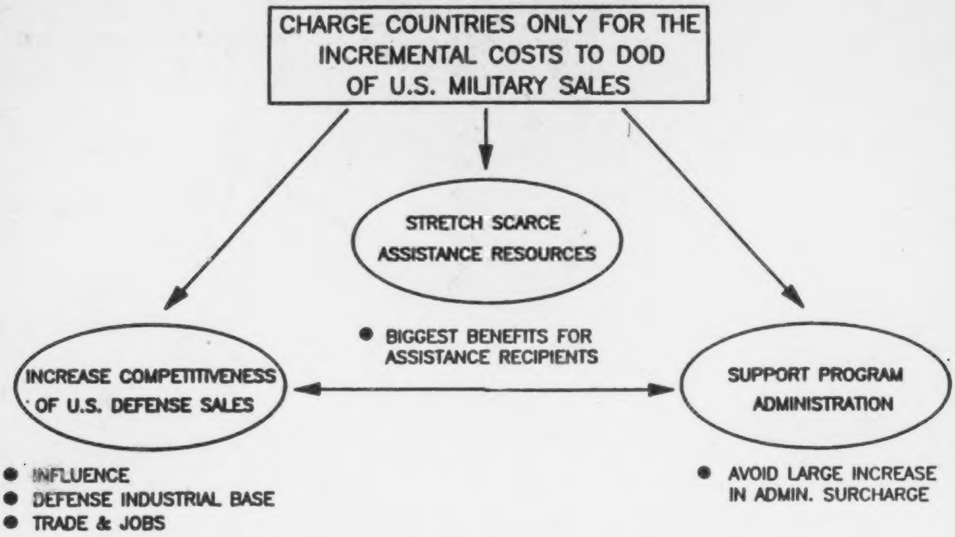
TRADE & DEVELOPMENT
INTER-AMER. FOUND.
ANTI-TERRORISM
AFRICAN DEV. FOUND.

Chart 4

FAIR PRICING


CHARGE COUNTRIES ONLY FOR THE INCREMENTAL COSTS TO DOD OF U.S. MILITARY SALES
STRETCH SCARCE ASSISTANCE RESOURCES
● BIGGEST BENEFITS FOR ASSISTANCE RECIPIENTS
INCREASE COMPETITIVENESS OF U.S. DEFENSE SALES
● INFLUENCE
● DEFENSE INDUSTRIAL BASE
● TRADE & JOBS
SUPPORT PROGRAM ADMINISTRATION
● AVOID LARGE INCREASE IN ADMIN. SURCHARGE

LAST TWO SECDEFS ENDORSED FAIR PRICING
AS COST-EFFECTIVE REALLOCATION OF U.S. DEFENSE RESOURCES

Chart 5

FAIR PRICING

WAIVE NON-RECURRING COSTS FOR CASES FINANCED WITH GRANT ASSISTANCE

- **SAVINGS OF $25M PER YEAR**

ELIMINATE ASSET USE CHARGE FOR ALL

- **SAVINGS OF $37M PER YEAR**

NO LONGER REIMBURSE MILDEPS FOR MILITARY SALARIES ASSOCIATED WITH PROGRAM ADMINISTRATION

- **SAVINGS OF $60M PER YEAR**

NO LONGER REIMBURSE TREASURY FOR UNFUNDED CIVILIAN RETIREMENT COSTS

- **SAVINGS OF $34M PER YEAR**

GENERAL QUESTIONING

Senator **Leahy**. Senator Mikulski, I have questions. Do you have any opening statement you wish to make?

Senator **Mikulski**. No, Mr. Chairman.

Senator **Leahy**. It is good to have you here.

EARMARKING

The question of earmarks, of course, comes up all the time. I think last year—actually, I think every year, if I can recall—Dan Inouye has asked Deputy Secretary Whitehead what security assistance earmarks he would do away with first if he had the choice. And of course Mr. Whitehead said all of them, as I suppose I probably would if I was in his position.

The administration complains about lack of flexibility, and I understand that. But the Congress has a legitimate interest in how these funds are used, and I discussed this at some length with Secretary Shultz when he was leaving and again with Secretary Baker as he came in. I will tell you the same thing I told both of them.

To remove earmarks or even a diminution of earmarks is going to require a building up of confidence between both the administration and the Congress. I am not suggesting this is a one-way street by any means. There has got to be more consultation. There has got to be more of an effort because, frankly, we have built up an era where the lack of confidence here is high, as reflected by your first chart. The earmarks went up in inverse ratio to the degree of confidence and that probably created more problems.

Let us take a look at some of the questions of earmarking. Take UNICEF for example. Everybody knows that has got strong congressional support. It always has. The administration's request for fiscal year 1990 represents a 45-percent cut in fiscal year 1989. That is almost like throwing up a target marked "earmark" and making it so big that nobody could possibly miss it when we pass our budget.

So how do your priorities actually differ? We earmarked almost every program last year at the level the administration asked, did we not? Would it be a heck of a lot different? Suppose last year we took every earmark out of here. Would the end result be an awful lot different?

General **Brown**. I will jump in the briar patch first.

I think it is not so much a question that it would be different in terms of the target countries. There might be a few differences. It is in terms of amounts. In an era of declining budgets, the question is can you continue to hold certain countries at the same levels at the expense, gross expense, of other countries?

If you go back and look from the peak of 1984 there and look at the earmarks staying the same or even larger, we are funding about one-half of the countries that we were funding back then. But even more importantly in that regard we are funding a number of countries at a lesser degree to the point of 90 percent less than before.

So I am speaking now for the Department of Defense. Our hangup is more with the earmarks than with the level of funding.

Our position is that we can do a heck of a lot more overall with this funding if we had more flexibility. It is that simple.

Mr. **Holmes**. Can I just add some examples, Mr. Chairman? I would like to support what Charlie said. I think that chart showed kind of dramatically what has happened in the last several years, how little is left in flexibility—the bar chart. And although you are probably right, the earmarks in an unconstrained atmosphere might have turned out the same, although there might have been a desire, depending on the level of funding, to take a proportionate look at the whole package, let me just give you just three examples of what happened.

Of the $269 million in nonearmarked fiscal year 1989 military assistance, $100 million had to be allocated for Portugal to carry out our commitment based on the consultations we had in January. That left only $169 million for a host of other programs. Three of the biggest losers, important countries for us, were Thailand, Jordan, and the eastern Caribbean.

For Thailand, we were able to allocate only $23 million, which is about one-half our fiscal year 1988 military aid level and less than one-quarter of the fiscal year 1985 level of $100 million. Programmatically that meant less than full support for previously supplied U.S. equipment; $30 million was needed to do that. No new acquisitions.

In the case of Jordan, we could allocate only $10 million of a $48 million military aid request. In programmatic terms again that represented a level far below the minimum of $25 million required to simply maintain the U.S. equipment that they already had in their inventory, and no new purchases were planned. We had to scrap plans to supply trucks and ammunition, TOW antitank missiles, which were needed by their land forces to protect their borders.

Finally, the eastern Caribbean. After the Grenada operation there was a need to build up some island security in the Caribbean and we put together a program, a regional security program, with the British, and in fiscal year 1988 we had to zero out that whole program. We were able at the end of the year to restore some money, but the point here was a situation where we had practically no flexibility and it hurt a very good program that we had going with the British.

I just wanted to give you three examples of what happens when you have got very little left to play with at the end of the day.

Senator **Leahy**. Let us take a look at that. In Portugal that was not because anything was earmarked by Congress. That, and the Caribbean, were additional problems that came up. The question is are we dealing with a problem of earmarks or a problem of resources. If there had been no earmarks, where would you have gotten the money for those things—the $100 million for Portugal, the money for the Caribbean? Where would that come from?

You know, without these earmarks, where do you make the cuts? Let us take, for example, on the chart, earmarks for Israel and Egypt. You have earmarks and nonearmarked. Let us take that. Let us do away with the earmarks for Israel and Egypt. Are you going to cut either of those amounts of money in the coming budget?

Mr. **Holmes**. You are trying to get me to commit heresy here.

Senator **Leahy**. Maybe the question answers itself.

Mr. **Holmes**. Maybe. Maybe we will come to the day when, given the increasingly scarce resources, that if we had the whole pie we might want to do proportionate decreases across the board.

Senator **Leahy**. I understand.

Mr. **Holmes**. Let me just emphasize——

Senator **Leahy**. And that is also different from what the President is telling both Mr. Mubarak and Mr. Shamir this week, just to use one example. I am not trying to put you on the spot here, but I am just saying let us look at the realities of it.

You say that is an earmark and of course on a chart it looks great. It is a huge earmark. But it is not in this sense. The administration made it very clear before any one of us here on the Hill said anything. They said those amounts are not going to get cut.

I talked with President Bush or then-President-elect Bush and Secretary-designate Baker before I went to the Middle East in January. They both made it very clear to me that those funding levels will stay the same. We are not going to increase it.

Then you take a number of the other things that are on there. Looking back through, if I was the executive branch, I would say get rid of these earmarks, give us some flexibility. But when I look at it I just wonder where there would be that much of a difference. I mean, it again goes back to the fact that budgeting is easy if you do not want to talk about budget deficits. By you I mean whoever has to do the budgets.

They do not want to talk about a budget deficit. Instead they say, boy, if we had a line item veto or a constitutional amendment we would not have these deficits. Except that you do not need a constitutional amendment to submit a balanced budget. A line-item veto would take out a fraction of 1 percent of the overall budget deficit. So it really would not make any difference.

Are we doing the same thing here when we show some concern about earmarking? Congressman Hamilton has talked about a 2-percent earmark—I mean 2 percent free of earmark. Do you really need more than 2 percent free of earmark?

Mr. **Holmes**. Frankly, what I would like to see is no earmarking but more thorough consultation with you all to work our way through these programs. I mean, I take your point and I agree with that. Congress obviously has an important role to play in this, but rather than facing us with these handcuffs could we not do it in a different way so that we could talk through the priorities together without being faced with these earmarks?

I certainly know this and you know this too, but Secretary Baker and, I dare say, Secretary Cheney as well want to work very closely with the Congress in a bipartisan way and work our way through these difficulties.

Senator **Leahy**. As I have said, they are both friends of mine and I have a great deal of respect for both of them. I have publicly applauded the appointment of both of them. They may have some second thoughts down at the White House in the naming of them, but they are both great appointments.

And I am happy to sit down with them. The Foreign Operations Subcommittee has something of a difficulty here because we end up, partly because of the political exigencies of the situation, being both the authorizing and appropriating committee. We are not just an appropriating committee that can say here is the money and go.

THE BUDGET CRUNCH

Look at some of the problems we have because we are faced with some real budget crunches here. The foreign aid budget looks kind of good on paper until you start looking at some of the things left out that are obviously going to be put back in because they always are.

But let us assume that the security assistance level is going to be cut this year and let us assume Congress keeps on earmarking, as it has in the past, probably not a bad assumption. What happens to the unearmarked? What do you cut and what do you protect?

General **Brown**. Let us take the published figure that Chairman Obey used a while back which, when you look at it, equates to a cut of about 6.5 percent of what we had at the 1989 level.

If you did that and the earmarks remained the same—you will see we are 94 percent earmarked—that eliminates every country that we are funding that is not earmarked. That is the impact. That is an easy one to compute. So that would take care of all of them.

Mr. **Bissell**. I might add that the picture does not look particularly different with respect to the economic support fund. It is the same situation.

REAPPRAISING FOREIGN AID

Senator **Leahy**. Well, you know, gentlemen, at the risk of sounding heretical, maybe it is time to do a complete reappraisal of the whole issue and the whole question of foreign aid. Maybe it is time to kind of step back and ask whether we have locked ourselves into such a rigid formula that it no longer makes any sense. And we should ask whether the battles that we are having every year between the Congress and the administration are necessary—and I have served here now, this is beginning the fourth administration, both Republican and Democrat—the battles continue pretty much, maybe on slightly different issues but basically the same battles no matter who is in office.

Maybe we ought to go back and ask whether our whole concept of foreign policy should be changing in the 1990's and in the next century. This is obviously not the immediate postwar period or post-Korea period or post-Vietnam period. We have some of our allies who sit complacent, wealthy and, in some instances, unbelievably selfish, doing very, very little. We debate whether they should be asked to do more because then we have to come up with some influence.

I am not sure in all instances that influence is really there or, if it is, whether again it is a new era and is changing and maybe we should be giving up some of that influence and gathering influence in other areas. We do very little in the Third World nations. We have a lesser percentage in Africa. How much aid did we give overall in Africa?

General **Brown**. If you are talking purely military assistance financing, it is $25 million, of which $15 million went to Kenya. So that is $10 million for the rest of Africa south of the Sahara.

Mr. **Bissell**. In ESF it is about $150 million out of $3.3 billion.

Senator **Leahy**. Does this not raise some questions—I mean, how much did we give to El Salvador in overall aid last year—$400 million, approximately? We give a quarter of that to sub-Sahara Africa. El Salvador in land area is smaller than the State of Vermont, So you see the point I am getting at.

Maybe with the new administration it is time to sit back and ask whether any of this makes sense. If we want to start talking about earmarks maybe we ought to discuss it within the context of the whole aid program. Obviously this is not the hearing to do it, and I am impinging on my colleagues' time. But let us talk about the whole thing.

Let us talk about whether we are using foreign aid effectively. We are going to keep the security assistance levels to Israel and Egypt. That commitment is being made this week to those countries, so as a practical political matter, that is going to happen. Then we have got Greece, Turkey, the Philippines, Pakistan, Portugal, and El Salvador.

Are those also untouchable?

General **Brown**. I would say some are. I really support what you are proposing here, Mr. Chairman, from the military side. I think what is important is that we have got to decide what our objectives are here and then, as you say, back off and look at it in a cold manner because we are in a period of very dynamic change that is coming upon us. Roles and relationships are changing, priorities, et cetera.

Senator **Leahy**. Because if everything we see in your proposal is untouchable, you know what is going to happen. We come in here, look at a budget resolution, consider Gramm-Rudman, then we start doing the cutting. The administration will holler and say they no longer have the flexibility in foreign policy; that Congress is making cuts.

Yet Congress is saying, wait a minute, there is only a certain amount of money in the budget, but everything is important—certainly anybody involved with each program is going to say it is important—where do we go?

If there was ever a time, a time of relative peace, a time of changing superpower relations, it is now—and I do not take a pollyannic attitude about that, I think we still have to approach the Soviet Union with a great deal of care—it is a time of relative peace, a time of at least changing dynamics, a time when we have an enormous debt, foreign debt, we are the greatest debtor Nation in the world.

So maybe we ought to be sitting back now and saying let us reappraise the whole question of foreign aid. That is not really a question, but feel free to comment on it.

Mr. **Holmes**. I think that is a laudable goal, and in fact, if I am not mistaken, I think that the effort, the Hamilton-Gilman task force is the beginnings of such an effort. I think there is a feeling there too on the House side that the whole assistance area has become hobbled by all kinds of restraints over the years and that it needed a searching look. And we are working with them and looking at their suggestions.

I take your point about the changing security environment. But while that is happening—and we are not there yet and I think, as you say, we have to approach that with prudence, but while that is happening there are new phenomena that are occurring that affect regional stability, that is, the acquisition of high technology weaponry and chemical weapons, biological weapons, missile proliferation that will greatly affect the non-Soviet scenarios.

Senator LEAHY. And sophisticated international terrorism.

Mr. HOLMES. That is another terrible transnational problem, and drugs. So it comes down, as far as our own budget request is concerned now, to how do you sort out the priorities as between base rights, fighting narcotics.

Senator LEAHY. And how do you sort out——

Mr. HOLMES. And development assistance.

Senator LEAHY. We have got our own security, which involves everything from guarding against either major military action against us or terrorist action against us. We also have to look at the drugs that come into this country, which is the greatest scourge I have seen in my lifetime. But then you also have a certain problem that involves the moral and political fiber of our Nation, a problem that challenges what an extraordinarily wealthy country we are—a nation that uses so much of the world's resources—that problem is the extent of hunger in the world.

How do we look at the Sudan? How do we look at Ethiopia? How do we look at all these other countries and not say that we have a moral responsibility to do something.

I was going to yield to you at this point, Senator Mikulski.

Senator MIKULSKI. Mr. Chairman, there is a meeting going on about a severe Maryland problem. I am going to try to come back. I have questions for the record.

Senator LEAHY. I apologize. I took too long.

Senator MIKULSKI. First, before I do go, Mr. Bissell, thank you so much for what you are doing with women and development.

Let me go over and try and take care of Maryland and then come back and take care of the rest of the world.

Senator LEAHY. Keep it in good shape. I have to drive through there on the way to Vermont.

Senator NICKLES. Mr. Chairman, thank you. I apologize to the panelists for missing part of their opening presentation. I think we are all stuck with four hearings going on at the same time. I have one next door and one in the Dirksen Building going right now. So I apologize for being a little bit late.

Senator LEAHY. I strongly urge you to read the statements of each of the witnesses because they are very good statements.

Senator NICKLES. I will do that and I also look forward to hearing from you concerning your trip and working together with you on this committee. I understand and share some of the frustrations that you have mentioned.

FOREIGN AID BUDGET

The administration and the budget negotiations right now have, as you know, five different categories that they are working on, including foreign operations as a separate category. I do not know if it will always be that way, but my guess is that is the way it is right now and probably will continue that way.

You have proposed an increase of $1 billion, from $12 billion-something to $13 billion-something. Is that correct? Allen, does that sound right?

Mr. HOLMES. Well, let us see. The overall?

Senator NICKLES. Yes.

Mr. HOLMES. Including foreign military sales, financing MAP, IMET, ESF, it is an increase from an 1989 request of $8.2 billion to $8.4 billion, and the actual allocation of 1989 was $8.045 billion.

Senator NICKLES. In 1989 the actual was $8.045 billion and you have requested for 1990 how much?

Mr. HOLMES. We requested $8.47 billion total security assistance, including ESF. And the fiscal year 1990 request compared to the fiscal year 1989 allocation is a 5.3-percent increase. If you compare the request with the 1989 request, it is a 2.5-percent increase for overall security assistance.

Senator NICKLES. I think you have to compare what you actually received instead of what you requested. I know we have wrestled with that in the past with Secretary Baker and others.

I also heard some of the comments, General, that you are trying to get less earmarking. Allen, you were making that comment when I came in. How much of the funds are earmarked?

General BROWN. On the military side, 94 percent of the funds are earmarked, which leaves us less than $300 million for the rest of the world. That involves eight countries or regions/programs.

Senator NICKLES. The total component of the military segment is how much?

General BROWN. For 1989 it is $4.8 billion. We are requesting $5.1 billion for 1990.

Senator NICKLES. And out of that $4.8 billion you have $300 million?

General BROWN. About $300 million that was not——

Senator NICKLES. That was not earmarked?

General BROWN. Yes, sir.

Mr. HOLMES. The $1 billion that you mentioned, my colleagues here tell me, is the grand total for all of the security assistance, economic aid, Public Law 480 is increased from $13.9 billion to $14.8 billion. That is where your $1 billion figure comes in.

Senator NICKLES. Does that include the multilateral banks?

Mr. HOLMES. Yes.

Senator NICKLES. The development banks?

Mr. HOLMES. Yes.

Senator NICKLES. So you are not here to discuss that today?

DEVELOPMENT AND THE NATIONAL INTEREST REPORT

The Chairman was talking about some changes and maybe a different philosophy and mentioned the report that came out from the House committee, I think Congressmen Gilman and Hamilton. I have not read that report. I have a copy of it on my desk, but I have not really spent any time with it.

Was the essence of it that the money that we have been doing, Mr. Bissell, in our aid program has not been really effective, has not really helped countries as intended?

Mr. Bissell. The report basically had three or four conclusions, one of which was that, in sum, the program had done a great deal of good over the last 30 years.

What it also said was, that in the 28 years, that is, since the original Foreign Assistance Act of 1961, the Foreign Assistance Act had become increasingly gummed up. The simple accumulation of reporting requirements, earmarks and what they generally termed micromanagement by the Congress had become excessive—their term—which was making it increasingly difficult to have the kind of development effect that is intended in the assistance programs.

As a result they proposed a number of things, one of which was streamlining the act itself. Second was to urge the executive branch to reconsider its organization of foreign assistance. And third was to urge itself—the House Foreign Affairs Committee—to try to come up with a better way of working with the executive branch, presumably through looking at the results achieved by our development assistance efforts as opposed to focusing on the money that goes into foreign assistance and spending its time earmarking.

They have now produced a discussion draft on the basis of that report and it has been circulating both here in Congress as well as outside.

ESF EARMARKING

Senator Nickles. Now if 90-some-odd percent of the military was earmarked, what percent would be earmarked in AID?

Mr. Bissell. In the ESF account, 98 percent is earmarked. This year we have $58 million out of $3.2 billion that is not earmarked.

Senator Nickles. You have $3.2 billion altogether and you only have $58 million?

Mr. Bissell. In the ESF account, that is right.

Senator Nickles. If you take Israel and Egypt out, you have how much money?

Mr. Bissell. That would amount to about $2 billion, if you take out $1.2 billion for Israel and $815 million for Egypt.

Senator Nickles. It is about $2 billion. And so you have about $1.2 billion left?

Mr. Bissell. Yes.

Senator Nickles. And of the other $1.2 billion all of that is earmarked as well, with the exception of $58 million?

Mr. Bissell. That is right; $58 million is what is left to cover a number of countries in—South America, the eastern Caribbean, and a number of Asian countries like Indonesia and Thailand.

Senator Nickles. Of the earmarks, when you call them earmarks you are talking about earmarks for a specific country?

Mr. Bissell. Yes.

Senator Nickles. But not for specific projects?

Mr. Bissell. No.

Senator Nickles. Has Congress interfered to that extent?

Mr. BISSELL. In particular countries. We have a requirement in El Salvador, for instance, that 25 percent of the money be projectized. There are also a number of earmarks for specific programs.

Senator LEAHY. Be project what?

Mr. BISSELL. Be programmed for projects as opposed to nonproject assistance. There is also a range of projects or specific programs that are mentioned in the act. I could get you a list of those if you want them.

Senator NICKLES. Do you have prohibitions on how money shall not be spent?

Mr. BISSELL. Yes, many.

Senator NICKLES. Do you have a prohibition on not having money spent in producing commodities, minerals, et cetera, that are in world surplus?

Mr. BISSELL. There is a prohibition that we not assist the production of commodities that would compete directly with U.S. exports.

Senator NICKLES. I have been supportive of that.

Mr. BISSELL. I know. I want you to realize we understand that provision.

Senator LEAHY. Trust me. They know exactly which ones each of us support. You think we have charts here. You should see the charts under each of our names, Don, as to what we support.

Senator NICKLES. You wanted to finish?

Mr. BISSELL. There are a range of restrictions in the act, most of which, frankly, we have incorporated into our ongoing practice in the Agency. So in the sense of being a formal restriction, many have little effect on our operations in the sense that we would do them as a matter of policy at this point.

It is rather akin to the issue of specific country earmarks and whether or not we would program by country differently than if not for the earmarks. At this point, if you, were to remove most restrictions and earmarks, you would probably see relatively little change in the ESF account because we have internalized those policy decisions in deference to part of the Congress.

SOVIET FOREIGN AID

Senator NICKLES. A different subject and, General, I do not know if you can share this publicly or not. The rumored amounts of Soviet input into the Nicaraguan military has been in the $500 million range. Is that still close to current?

General BROWN. The latest information indicated that Soviet economic aid to Nicaragua continues to average approximately $300 million annually. Moreover, in 1988, the Soviets and the Nicaraguans signed their first ever multiyear trade agreement for $675 in economic credits, to be disbursed in 1989–90. Soviet bloc military assistance in 1988 was approximately $515 million.

Senator NICKLES. It is higher than $500 million per year? I was thinking——

General BROWN. Are you talking strictly military?

Senator NICKLES. I was speaking of military. I was thinking total economic input through the Soviet Union, including, I guess, Cuba, was possibly $1 billion, and I was thinking that was about one-half military and one-half economic.

General **Brown**. The figure that was on NBC last night on Cuba was $6 billion, which is more than my entire budget.

Senator **Leahy**. Annually into Nicaragua?

General **Brown**. No; into Cuba.

Mr. **Holmes**. That is what I was going to say.

General **Brown**. For Nicaragua, $500 million economic and $500 million military.

Senator **Nickles**. But the Soviet support of Cuba was, what, $6 billion?

General **Brown**. The figure last night given on the news from Havana was $6 billion.

Senator **Nickles**. Do you concur with that figure?

General **Brown**. Yes.

Senator **Nickles**. How would that break out, economic and military?

General **Brown**. In 1988, the Soviets sent about $4 billion in economic assistance and about $1.5 billion in military aid. This tracks with the Soviet trend to commit substantially more economic than military aid. Military aid in 1988 was down slightly from 1987, while economic aid was up slightly.

Senator **Nickles**. I know we have looked at the Nicaragua figure many times, and that figure, Mr. Chairman, has been on the floor of the Senate several times. I put it there.

What about El Salvador, the estimated amount of money, munitions and so on that would be going into the Communist factions in El Salvador?

General **Brown**. There are no accurate estimates of the total value of assistance going to the FMLN from Nicaragua and Cuba. As for military equipment furnished to the FMLN by Cuba and Nicaragua, it is fairly rudimentary and is most likely delivered free of charge to the FMLN. Most of the FMLN's nonmilitary assistance comes from Western nongovernmental sources; however, there are no accurate numbers on the total value of such aid. It is judged that no funds or munitions are given to the FMLN directly by the Soviets and that, except for low levels of Soviet financial support for the Salvadoran Communist Party, Moscow has largely turned the issue of FMLN support over to Cuba and Nicaragua.

AID TO EL SALVADOR

Senator **Nickles**. I think it was mentioned in the chairman's question, but what are we doing economically and militarily in El Salvador?

General **Brown**. Militarily this year we are providing them about $85 million, which is about one-third of what they are getting militarily and economically.

Senator **Nickles**. So economically they would be getting like $170 million or something like that?

General **Brown**. I do not have the exact figure, but I know that it is two-thirds.

Now let me make one point on El Salvador. Earlier this year a large assessment was done of the country's military requirement by our southern command, and it was determined that just to sustain themselves at an operating level they needed $97 million. That is why you see the fiscal year 1990 request at $97 million.

Now that does not include any modernization or replacement of large combat losses. That is just to sustain.

Senator NICKLES. I would be interested in the answer, and I am sure the committee would be as well, of your estimate of the amount of money coming in either through Nicaragua or through Cuba into El Salvador. I wish it was not a problem, but I think there is a significant problem there. And that assessment I think would be helpful.

General BROWN. We will certainly do that.

Mr. Chairman, thank you very much.

[The information follows:]

A review of the most recent information indicates that Sandinista support to the Farabundo Marti National Liberation Front (FMLN) continues, although more discreetly, since the Government of El Salvador revealed violations at Esquipulas II negotiations. Although FMLN visibility in Nicaragua was initially reduced, the FMLN continues to conduct business and, in some cases, has expanded, operations with the full knowledge and support of the Sandinista Government. To support its current level of operations, the FMLN must infiltrate at least 70 percent of its ammunition needs from external sources. Nicaragua continues to serve as the conduit for this material destined for the FMLN.

Communication Support. Nicaragua has continued to allow the FMLN to use communication facilities located in Nicaragua. According to information provided by Major Roger Miranda Bengoechea, a former top aide to Nicaraguan Defense Minister Humberto Ortega, the Sandinista National Directorate was looking into ways to allow the FMLN to continue to operate in Nicaragua. In September 1987, a special commission was formed to regulate the volume, type, and amount of FMLN communications originating in Nicaragua. This commission ordered the five FMLN factions to centralize their radio communications into one facility controlled by the Nicaraguan Ministry of Interior (MINT). Information through June 1988 indicates that all FMLN factions continue to maintain regular contact with out-of-country control elements in Nicaragua.

Military/Political/Propaganda Support. Available information indicates that the Sandinista Government continues to actively support FMLN and Democratic Revolutionary Front (FDR) activities in Nicaragua. For example, during the first week in March 1989, the FMLN General Command met in Managua to discuss electoral strategy. University Rector Ignacio Ellacuria confirmed that he had met the FMLN commanders in Managua. According to the rector, he met with Joaquin Villalobos on 6 March. FDR President Guillermo Ungo also met with FMLN commanders during the same time frame in Managua.

Material Support. Multisource intelligence clearly indicates that the Salvadoran insurgents continue to receive significant amounts of arms and ammunition, mainly from Nicaragua and Cuba.

- These deliveries are crucial to the viability of the insurgency. We estimate the FMLN must infiltrate at least 70 percent of the basic ammunition needs--100 percent for such as AK-47 rifles and RPG-2/7 launchers. Materiel is infiltrated by various means into El Salvador; however, it is believed the majority of this materiel is infiltrated by sea. As significant increase in seaborne deliveries was detected following the signing of the Esquipulas II accords. An even more dramatic increase in these deliveries occurred after the cutoff of lethal aid to the Nicaraguan Resistance (RN).

-Since last year, the Armed Forces of El Salvador have been capturing increasing quantities of Soviet Bloc AK-47 assault rifles and ammunition. These AK-47s and ammunition have appeared in almost all major armed encounters throughout the country in recent months and clearly are now in the hands of all the factions of the FMLN. Most of the recently captured AK-47s are of East European manufacture, and the AK-47 ammunition is primarily of Cuban manufacture. Much of the captured ammunition was manufactured by Cuban Ammunition loading Factory 13, and some of it is dated as recently as 1988. Although at least one FMLN commander has claimed publicly that these AK-47s and ammunition were obtained form the RN, none of the weapons captured so far can be traced to RN stocks. Furthermore, the RN was never provided with Cuban - manufactured ammunition.

GRANT VERSUS LOAN PROGRAMS

Senator **Leahy**. I have some questions for the record. A number of Senators will have questions for the record. I know Senator Kasten does, too.

You are going to all grants in the military assistance request. Are none of the nations we assist capable of repaying low-cost loans to purchase military equipment? In other words, why do they have to repay loans for development purposes but they can get military equipment and weapons free? Is there different economics depending on whether it is development or whether it is weapons?

Mr. **Bissell**. Actually, the development assistance is extended entirely on a grant basis now. We are virtually out of the loan business as of the last couple of years.

General **Brown**. On the military side, the countries that can afford to pay their debts have been weaned off the program essentially. In the fiscal year 1989 budget there is a small amount of loan money at concessional rates.

Senator **Leahy**. There is $50 million MAP, is there not?

General **Brown**. The bulk of loan money at concessional rates that went to Greece because they are more capable of paying the loan back. Some $30 million of MAP also went to Greece.

Senator **Leahy**. You are going off MAP, or you want to go off MAP after this year; is that right?

General **Brown**. We want to go all grant, No. 1. And, No. 2, if we are going to go all grant we would like to go with one color of money instead of two colors.

Senator **Leahy**. So what is the line item? What is the $40 million line item MAP that is in this year's budget?

General **Brown**. That is a general cost. That is not a country-related cost.

Senator **Leahy**. I am not sure I understand this. Are we going to need it after this year?

General **Brown**. We will need it, but it could easily migrate into that same category. It is just we did not get to it.

Senator **Leahy**. But if we do not have any MAP why do we need it?

General **Brown**. We do not. We need the money, but it could be the same color as the other.

Senator **Leahy**. It would increase the other budget by $40 million?

General **Brown**. In the overall it would remain the same. What we need is a statutory change to the language.

Senator **Leahy**. But some of the same countries that get straight military grants also get loans through the Multilateral Bank, which they have to repay, is that correct?

General **Brown**. That is my understanding.

Senator **Leahy**. So they have got enough money to repay the loans, but they do not have enough money to repay a military sale, so it has to be a grant?

Mr. **Bissell**. In pursuing that comparison, the poorest countries of course generally receive highly concessionary loans from the World Bank and the regional banks. Moneys that we contribute to highly concessional multilateral facilities, are used to finance 40-

year loans with 10 year grace periods and 1 percent interest, that sort of package.

The better off countries are eligible for near market-rate loans from the World Bank and the other development banks.

General **Brown**. If our program received the same kind of soft rates and payback periods, we could certainly have most countries go to a loan.

Senator **Leahy**. But they could not go to the banks anyway and just borrow money to buy, let us say at 10 percent, with a 1-year grace period, and so on? Could they not go to the banks and say, look, I want to borrow the money here to buy the weapons?

General **Brown**. I cannot comment on that.

Mr. **Bissell**. I assume the banks would not allow them to do so. That is, it has to go for development purposes.

General **Brown**. The Exim Bank, for example, is prohibited by law from loaning economically less developed countries money for military equipment. I do know that.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. They do not have any money anyway. I think the administration zeroed out the Exim Bank. That is why we get earmarks.

I have a lot of questions on this, and I will really consider this kind of a preliminary discussion. I appreciate those of you who came up and briefed Eric Newsom, Jim Bond, Tim Rieser, Rand Fishbein or the others from my office because they then give me these huge briefing books to take home to read rather than edifying myself with John LeCarre or something that is more fun to read.

But it is important and I hope you know that when they call with a question, it is something I really want to know. We are not going to waste your time and ours with just fishing expeditions. But this is a preliminary meeting because after 15 years in the Senate—and during that 15 years seeing the world changing rapidly, including some of the ways we handle foreign aid—I question whether we have kept up with it.

I do not mean that as a criticism of any administration any more than a criticism of the Congress. I mean, each side had involvement in it, and I think perhaps we have gotten into too many of the line item battles back and forth between the administration or between the couple miles up and down Pennsylvania Avenue and forgotten the other 25,000 miles around the world.

It really bothers me, and it will be my intention at least to probe around and see if there are alternatives. Gentlemen, I thank you very, very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

DEPARTMENT OF STATE ADDITIONAL COMMITTEE QUESTIONS

EGYPT'S ECONOMIC REFORMS

SENATOR LEAHY: Last month the Bush administration announced that it is withholding $230 million in cash aid for Egypt because of its failure to make adequate economic reforms. As you know, $115 million of Egypt's $2.3 billion aid package is provided in cash if the administration concludes that "significant and additional" economic reform measures have been implemented. For the last two years, the administration's judgment has been that economic reforms have been neither significant nor additional. I understand that France, Egypt's second largest creditor, also has suspended disbursement of new aid because of arrears totaling $450 million.

Do you see any indication that the Government of Egypt might be willing to set specific targets and timetables for a plan to cut its budget deficit by 2% in the coming fiscal year?

AMBASSADOR HOLMES: In March the Government of Egypt (GOE) raised energy prices which will have an impact on this year's budget deficit. Concurrently, the government has prepared a series of tax measures scheduled to be implemented in Fiscal Year 89/90 budget year, which begins July 1. While we do not yet know all the details of its budgetary measures, or the net effect of those measures on the prospective budget deficit, we believe this represents positive movement. Prior to President Mubarak's visit, the Government of Egypt announced plans to undertake a series of reform steps over the next year to improve the GOE's government's fiscal position and strengthen its economy. The Bush Administration has told the Government of Egypt that we would dispurse the $230 million in support of implementing these steps.

SENATOR LEAHY: You will recall that the IMF, which signed an agreement with Egypt in May, 1987, concluded that Egypt reneged by not moving fast enough on its reforms, and suspended stand-by payments late that year. The Fund's refusal, so far, to agree to Egypt's terms for a new agreement has means that Egypt cannot reschedule another year's debt -- about $3 billion of its $43 billion total foreign debt -- with the Paris Club creditors.

Is the United States in full agreement with the IMF on the economic reform measures Egypt needs to take to restore financial stability and its international aid flows? If not, where are we in disagreement?

AMBASSADOR HOLMES: Over a number of years, both the Administration and the Congress have been concerned about the need for Egypt to adopt a vigorous reform effort in order to get its economy back on a path to recovery and growth. We are in general agreement that Egypt needs to make continued progress in the areas of traditional concern to the IMF, including the budget deficit, exchange rate management, and interest rates. We are not a party to the negotiations between the IMF and Egypt, however, and are not in a position to take a stand on specific IMF proposals.

SENATOR LEAHY: How has The Fund suggested Egypt go about stimulating economic growth?

AMBASSADOR HOLMES: The IMF has suggested that in order to attract the financing needed by Egypt to stimulate growth - both from external sources and from Egyptians' domestic savings - Egypt must put into place a credible economic stabilization program. This would have to incorporate some fairly stringent fiscal and monetary policies, along with realistic policies on exchange rates and interest rates. The Fund has suggested that in the absence of such a framework, it will be extremely difficult to mobilize the financing that Egypt needs to develop and grow. In addition, measures to liberalize industry and agriculture will enhance the growth impact of a stabilization program, although The Fund itself does not normally deal with these aspects of the regulatory environment.

JORDAN'S DEBT AND NEW AID PROPOSAL

SENATOR LEAHY: For FY90, the aid request for Jordan is for $48 million in FMS and $35 million in ESF, more than a twofold increase over the combined security assistance total of $25 million provided in FY89.

In light of the fact that Jordan remains in default on approximately $80.9 million in prior guaranteed loans, how can you justify such large new increases in security assistance?

AMBASSADOR HOLMES: The government of Jordan had been running up to a year's worth of FMS arrears ($80.9 million mentioned above) until December 1988, when it signed an agreement with the U.S. to refinance $255 million of its FMS debt at lower interest rates and new repayment terms. As of March 31 1989, FMS arrears amounted to only $16.3 million.

The FY90 increase in security assistance to Jordan requested is intended to move aid levels back toward the previous, higher levels of $130-190 million supplied annually in FY84-87. Specifically, the FY90 funding request will provide support for Jordan's long-term defense needs, as well as urgently needed financial assistance to meet pressing economic goals.

ANGOLA/NAMIBIA PEACEKEEPING

SENATOR LEAHY: April 1 saw the implementation of the first stage of the U.N. agreement governing the withdrawal of Cuban troops from Angola, the placement of peacekeeping forces to monitor the withdrawal and assistance in the eventual independence of Namibia. Critics of the plan maintain that the United States has failed to insist upon independent verification procedures to insure a total Cuban pull-out.

What steps have you taken to ensure that all Cuban and South African troops are withdrawn from Angola and Namibia?

AMBASSADOR HOLMES: Under the terms of the bilateral agreement between Cuba and Angola signed on December 22, 1988, the two parties agreed to a timetable for redeployment within Angola and total withdrawal of Cuban troops from that country, and they asked the United Nations to establish a monitoring operation to verify compliance with the accord.

That operation, the UN Angola Verification Mission (UNAVEM), was created by UN Security Council Resolution 626 of December 20. Under its terms, any Security Council member, such as the U.S., may request a spot check or on-site visit by UNAVEM personnel if it has reason to believe, through whatever means at its disposal, that a violation of the redeployment and withdrawal schedule might have occurred.

To date, we have no reason to believe the Cubans are not in full compliance with the established timetable. We shall continue to monitor the situation very closely.

Separate arrangements are in place, under the provisions of Security Council Resolution 435 (1978) and subsequent agreements, to monitor the restriction to base and withdrawal of South African Defense Forces from Namibia, and the dismantling of South-African organized South West African Territorial Forces.

That process has been temporarily interrupted by the need to use SADF and SWATF forces to deal with the large-scale incursion of SWAPO forces into northern Namibia which began on April 1.

The withdrawal process is expected to resume once the withdrawal of SWAPO forces to Angola has been verified under the terms of the agreements reached by the Angolans, Cubans, and South Africans at the recent meetings of the Joint Commission. This is expected to be completed on May 12.

SENATOR LEAHY: What provisions are there in the Angolan Accords for the removal of mines from the areas of conflict? Are all sides required to submit maps of minefields they have laid down and assist in their removal? If not, why not?

AMBASSADOR HOLMES: There are no arrangements for the removal of mines per se in the Angolan agreement with Cuba. We believe that withdrawing Cuban troops will inform the Angolan authorities of the location of any minefields they leave behind in Angolan territory.

As far as Namibia is concerned, UN forces are in close contact with SADF and SWATF regarding any minefields they have placed in the territory. All parties have agreed to locate their minefields and help with removal. An Australian Engineer Company within UNTAG has mineclearing as one of its responsibilities. They will be responsible for detection and removal of any unexploded mines left in Namibia, by either side.

SENATOR LEAHY: What provision is being made to treat civilians wounded by mines and unexploded munitions littering the area of disengagement?

AMBASSADOR HOLMES: The Angolan Government in Luanda would be responsible for medical treatment of its citizens wounded by mines or unexploded munitions in Angola, if any.

South African authorities in Namibia retain responsibility for medical treatment of civilians who might be wounded in Namibia until the territory achieves independence. UNTAG forces include a medical unit for its civilian and military personnel, which can provide first aid to Namibians in an emergency situation.

SENATOR LEAHY: What consideration has the U.N. given to the use of remotely piloted vehicles in monitoring the disengagement of the warring forces and in surveying the withdrawal of Cuban and South African troops?

AMBASSADOR HOLMES: Brief consideration was given to the use of RPV's in monitoring the disengagement of forces in Angola and Namibia. This costly and sophisticated technology does not lend itself to effective monitoring of small groups which are dispersed over such a large area.

SENATOR LEAHY: For The Record: Please provide detailed cost estimates of the possible use of RPV's in a Southern Africa peacekeeping role, their value as a force multiplier and as a way of reducing the cost, and improving the effectiveness, of the current U.N. force.

AMBASSADOR HOLMES: RPV's would be of little value in a Southern African peacekeeping force in light of the nature of the terrain and of the conflict, with limited numbers of guerrillas slipping through rugged countryside. RPV's would not be a force multiplier because the area is too large to monitor cost effectively, RPV's are unable to differentiate between armed groups, and the lack of local support infrastructure would make the cost prohibitive. If all parties agree to and adhere to a ceasefire, the current UN force is more than adequate to monitor the situation. Absent such adherence, there is no UN force which could impose peace on the antagonists.

PAKISTAN

SENATOR LEAHY: With the Soviet withdrawal from Afghanistan, and the rapproachment between India and Pakistan and an indication that Prime Minister Gandhi plans to reduce defense spending, how do you explain your request for a $10 million increase in military aid to Pakistan?

AMBASSADOR HOLMES: We have requested $240 million in military assistance for Pakistan, the same amount we requested last year. The amount stipulated in our six year agreement with Pakistan is $290 million per year (at that time, however, FMS was on loan terms while FMS is now done on a grant basis). We believe that it is important that we indicate our strong support for the new democratically-elected government of Benazir Bhutto.

SENATOR LEAHY: What is the Administration's position on the certification that Pakistan does not possess a nuclear weapon?

AMBASSADOR HOLMES: After full review of all information available, the President was able last fall to make the determination, as required by law, that Pakistan does not possess a nuclear device and that our proposed program of security assistance would significantly reduce the risk that Pakistan would possess such a device.

FMS FINANCING FOR DIRECT COMMERCIAL PURCHASES

SENATOR LEAHY: In addition to the Administration's all-grant FMS financing request for FY 1990, you are recommending that selected recipients be allowed to apply part or all of their FMS financing to commercial purchases, a process that is not possible under the grant Military Assistance Program (MAP), which is intended strictly for government-to-government purchases. To which countries would your proposal apply? How does this proposal assist countries in reducing their debt burden?

AMBASSADOR HOLMES: The Administration has recommended that Foreign Military Sales Financing (FMSF) for direct commercial purchases continue to be made available only to countries with sufficiently developed acquisition systems and infrastructure to ensure proper utilization of funds. In this connection, we purpose that FY 90 FMSF for commercial purchases be limited to those countries that received such financing in FY 89. (FY 89 FMSF was allocated to Greece, Portugal, Turkey, Egypt, Israel, Jordan, Morocco, Pakistan and Tunisia.)

The Administration is requesting all-grant FMSF in order not to raise the debt burden of U.S. security partners, some of whom are struggling to repay previous FMSF that was offered during periods of high interest rates. The Administration's effort is also consistent with the Congressional wish not to aggravate the debt situation of financially-strapped friends. FMSF grants will permit eligible recipients to strengthen their self-defense capabilities, in a manner supporting U.S. interests, without diverting scarce domestic resources from badly needed economic adjustment and development.

DISTINCTION BETWEEN DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND OBJECTIVES

SENATOR LEAHY: The Hamilton report states that "the lack of a clear distinction between development assistance and ESF causes a confusion of objectives and responsibilities and makes evaluation difficult." This is a criticism we often hear. Do you agree, and if so, what do you suggest? How would you change ESF to make it more useful in furthering U.S. foreign policy objectives?

AMBASSADOR HOLMES: Although it complements Development Assistance, ESF is provided to allies and friends in support of broader political and security interests of the recipient and of the United States. By encouraging economic development and restructuring, ESF helps to avert or alleviate economic disruptions that can threaten the security, political stability, and independence of such countries. Many key friendly nations who have felt the strain of economic dislocation and political strife have begun to implement urgently required structural reforms. However, in the near term, such adjustments can often aggravate social and political tensions unless buffered by ESF.

ESF is implemented under the direction of the Administrator of A.I.D., in accord and with the overall policy guidance of the Secretary of State. Although ESF allocations are primarily shaped by considerations of national security policy, ESF continues to underscore the U.S. commitment to economic growth and development.

SENATOR LEAHY: Do you agree that ESF ought to be linked to military assistance in a category called "security assistance," or does it really belong in a different category?

AMBASSADOR HOLMES: The economic role of ESF goes without question. Such assistance provides critical balance of payments support and permits acquisition of badly needed raw materials and capital goods when foreign exchange is not available. Nevertheless, the allocation of ESF is guided by U.S. security objectives and should therefore remain under the rubric of "security assistance."

It should be noted that the breakout between economic and military aid to a given country will vary, depending on the recipient's economic and security situation and U.S. policy priorities. However, both types of aid can be complementary. For example, military aid will often provide the security "shield" necessary for economic development. It is difficult to promote economic goals in the face of security threats such as insurgency and terrorism. Furthermore, military assistance in some instances contributes to a defense force's nation-building capabilities, particularly in such areas as engineering and construction.

USE OF MILITARY AID

SENATOR LEAHY: What do you think about using military assistance to promote democracy or human rights abroad? Do you think that is proper justification for providing military equipment to foreign nations? Or, should military aid programs be based strictly on military considerations--building a more modern military establishment to meet specific internal or external threats?

AMBASSADOR HOLMES: By helping to strengthen the legitimate self-defense capabilities of friendly countries (some of whom are not able to develop politically and economically because of threats such as insurgency, narcotics trafficking, and terrorism), military aid can contribute in a valuable way to democracy. Moreover, through International Military Education and Training, perhaps the most cost-effective security assistance program, the United States exposes students from foreign defense establishments to the ideals of democracy, respect for human rights and the rule of law. Such training provides important insights for foreign military personnel into the manner in which the U.S. military functions under civilian authority.

The mix between economic and military aid varies, depending on the recipient's economic and security situation and U.S. policy priorities. Furthermore, both types of aid are often complementary. For example, military aid can provide the security "shield" necessary for economic development, in the face of security threats such as insurgency and terrorism. In some cases, military assistance also is designed to enhance a defense force's nation-building capabilities, in such areas as engineering and construction.

FOREIGN AID FOR BASE RIGHTS

SENATOR LEAHY: The Administration has requested $9.2 billion for security assistance for FY 90. $1.1 billion of that goes to the base rights countries of Turkey, Greece, and Portugal. Why should payment for NATO bases come out of the foreign aid budget? If we are going to rent those bases, what is the logic of paying for them out of foreign aid? The same goes for the Philippines--why shouldn't DOD pay for those bases?

AMBASSADOR HOLMES: Security assistance is not regarded by the United States as "rent" for base rights. Thus, it should not be provided to a country solely because the recipient permits U.S. access to its military facilities. Security assistance is guided by our jointly-agreed objectives, with the recipient country, to improve that country's ability to defend itself. Such factors as the security threat, the state of bilateral cooperation, and the availability of Congressionally appropriated funds determine program parameters. Base rights and military access allow the United States to advance its national security interests, meet its commitments to friends and allies, and strengthen alliance and regional security relationships. Thus, countries that provide base rights contribute in a tangible way, within their economic limitations, to the safeguarding of important U.S. interests and to the common defense. At the same time, because the issue of national sovereignty is politically sensitive, and aid and bases both support common defense purposes, it is virtually impossible to decouple aid and access entirely. With regard to the sources of these funds, security assistance is provided to strengthen U.S. security relationships with foreign nations. Hence, as a major instrument of U.S. foreign and national security policy, it seems appropriate that this program should remain under the International Affairs budget function.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

ISRAEL: OFFSETS

SENATOR INOUYE: According to testimony provided by Secretary Whitehead to this Subcommittee last year, the United States Government has told the Government of Israel that we intend to curtail the Israeli offsets at the end of FY 1989. [S. Hrg. 100-809 Pr. 2, 578)

Why are we curtailing Israeli offsets in FY 1989 and are we doing this to any other country?

AMBASSADOR HOLMES:Israel is the only FMS recipient allowed to finance a wide variety of directed offsets with FMS credits, and we have gradually been reducing this privilege. In FY 84, Israel was permitted directed offsets up to $225 million. By FY 86 and FY 87, this was brought down to $150 million annually. In 1987 we agreed to extend the $150 million annual offset level through FY 89 in an effort to ameliorate short-term economic dislocations that might be caused by the Israeli government decision to cancel the Lavi fighter aircraft project. Last year, we agreed that directed offsets would be reduced to $100 million for FY 90.

It is our intention to phase out the Israeli directed offset program. We believe the offsets hurt the U.S. economy and weakens the purchasing power of the FMS dollars granted for Israel to acquire new weapons systems.

Egypt is the only other FMS recipient country with any directed offset program, which has been limited to $40 million in offsets.

SENATOR INOUYE: The United States and Israel are increasingly reliant upon Jordan to support an eventual settlement of the Palestinian problem. At the same time it has been widely reported that the Jordanian economy is suffering under the weight of rising inflation, a sharp drop in foreign remittances and an external debt burden amounting to over $3.3 Billion.

How will it be possible for Jordan to contribute to the furtherance of the peace process if its economy continues to deteriorate?

AMBASSADOR HOLMES: Jordan is inexorably tied to the peace process by both Geography--it has the longest border of any state with Israel, and Demography--a large percentage of Jordan's population is of Palestinian origin. Jordan must, despite its economic situation, play a role. The Administration is anxious to help Jordan through this period of economic trouble, as are a number of Arab states, the IMF, World Bank and others. We believe that Jordan is capable of continuing its role in the peace process as it moves through this difficult period.

SENATOR INOUYE: I understand that last year Jordan concluded a deal with the Soviet Union for the purchase of a first batch of between 30 and 40 MiG-29 aircraft and may be considering new arms purchases from the United States.

Why is Jordan seeking these state-of-the-art aircraft at a time of increasing domestic austerity?

AMBASSADOR HOLMES: Reports that Jordan has purchased Soviet MiG-29 aircraft have thus far proved unfounded. Despite what was reported to be an extremely good offer by the Soviets, Jordan has announced agreements to purchase French Mirage 2000 aircraft, financed by France. Jordan has not asked to buy American arms. There are basic self-defense needs which nations must address in order to remain secure. Jordan's armed forces are by no means out of proportion to its size or in any way match that of its neighbors, Syria, Israel and Saudi Arabia.

JORDAN AND CHEMICAL WEAPONS

SENATOR INOUYE: There have been reports both in Europe and the United States that Jordan is seeking a chemical weapons capability. According to one account, a Netherlands national was detained in Milan earlier this year after he had transferred 483,000 liters of chemical products for the manufacture of toxic gases from the United States to Jordan and Iran. Can you certify to this Committee that Jordan is not presently, and does not intend, to acquire chemical weapons production or delivery capability?

AMBASSADOR HOLMES: We have no reason to believe that Jordan is seeking to develop a chemical weapons production or delivery capability. As is the case with many countries, Jordan may be interested in obtaining defensive capabilities, such as protective clothing or decontamination equipment, for protection against chemical attack.

ESF AND EGYPTIAN-ISRAELI PEACE

SENATOR INOUYE: This year is the tenth anniversary of the Egyptian-Israeli peace treaty. Title II of the Foreign Operations Appropriations Bill for FY 1989 states that: "it is the sense of Congress that the recommended levels of assistance to Egypt and Israel are based in great measure upon their continued participation in the Camp David Accords and upon the Egyptian-Israeli peace treaty." Yet, in an interview as recently as December, 1988, Egyptian Minister of State for

Foreign Affairs, Butrus Ghali, stated that the Camp David Accords are "antiquated" and "as good as dead." How do you square the Minister's comments with the legal requirement that the Camp David process remain viable as a justification for the continued large amounts of aid to both countries? Should the Minster's comments be taken to mean tha Egypt no longer views as possible an agreement over Palestinian autonony in the West Bank and Gaza will never be reached and should not be pursued?

AMBASSADOR HOLMES: The Camp David Accords and the Treaty of Peace between Egypt and Israel are fundamental building blocks of our approach to peace in the Middle East. Egypt has complied with its obligations under these agreements and continues to stand strongly behind its peace with Israel. Aspects of the Camp David Accords have been impossible to fulfill for a variety of reasons, including the absence of Palestinian and Jordanian participation in the accords. It was this to which Minister of State Boutros Ghali was probably referring in his reported statement. Egypt remains an enthusiastic supporter of expanding Arab-Israeli peace and has cooperated closely with the United States in our efforts to this end.

INDIAN MILITARY SPENDING REDUCTIONS

SENATOR INOUYE: Recent Reports from India suggest that the Government of Prime Minister Rajiv Gandhi is moving to reduce its military budget for the first time this decade. The move comes at a time of improved relations with Pakistan and China, India's traditional adversaries. The military budget, recently presented to Parliament, is $8.7 billion. This is about $100 million less than last year's allocation for India's military, the fourth largest fighting unit in the world, with more than a million men in uniform.

In light of this reduction, the overall improvement in relations between India and Pakistan, and the recent Soviet withdrawal from Afghanistan, should the Congress consider reducing the level of military assistance to Pakistan? If so, what should the new level be?

AMBASSADOR HOLMES: We do not believe that military assistance levels should be reduced at the present time. Pakistan, a good friend of the United States, has legitimate defense needs. We should continue to be supportive, especially now with a new, democratic government in power.

PAKISTAN AID LEVEL

SENATOR INOUYE: The Administration has requested an aid level for Pakistan of $250 million in ESF, $240 million in FMS grants, $80 million in food assistance and $50 million in development assistance, for a total amount in FY 90 of $626.7 million. This compares to an appropriation for this year of $581.2 million.

How can you justify such a large increase in overall assistance when for years it was the expectation of many in our Government that once the Soviets withdrew from Afghanistan, there would no longer be a need for such high levels of Pakistani aid?

AMBASSADOR HOLMES: Pakistan remains an important strategic friend of the U.S. in an unstable, troubled region. We will continue to supply Pakistan with the military equipment needed for its legitimate defense. Continued U.S. military sales also sends an important sign of U.S. support for the new Government of Prime Minister Bhutto. In 1986 we signed with Pakistan a six year bilateral assistance agreement. Our FY 90 request reflects the annual assistance levels implied in that agreement, except for FMS which is $240 million compared to $290 million in the agreement.

SENATOR INOUYE: Has Prime Minister Bhutto provided you with a plan on how our military assistance to her country will be used? If so, please describe the Prime Minister's program?

AMBASSADOR HOLMES: We discuss with Pakistan on a regular basis the administration of the FMS program. Pakistan's current FMS funding is used primarily for the continued modernization of its armor and air defense. The F-16 aircraft which Pakistan wishes to acquire would be paid for out of its own national funds, as almost all FMS funds are committed to current, on-going programs.

SENATOR INOUYE: Are talks still underway to provide Pakistan with a U.S.-made airborne early warning (AEW) capability? If so, where do discussions stand and are these aircraft needed in light of the Soviet withdrawal from Afghanistan?

AMBASSADOR HOLMES: We are not currently discussing with Pakistan the purchase of AEW aircraft.

ANGOLA/NAMIBIA MINEFIELDS

SENATOR INOUYE: Does the peacekeeping agreement for Angola require that the parties to the conflict provide the U.N. with maps delineating the location of minefields they have planted? If not, why not?

AMBASSADOR HOLMES: The peace agreement for Angola is a bilateral one between the Angolan authorities and their Cuban allies. We can only assume the departing Cuban forces will inform the Angolans of the location of any minefields they leave behind.

South African Authorities have been working through the Joint Military Monitoring Commission established by the Geneva Protocal of August 8, to follow up on implementation of SADF withdrawal from Angola. The Angolans can raise the issue at any time in that forum or at the Joint Commission should they choose to do so.

At the August 15-16 Ruacana ceasefire negotiations the leaders of the Cuban, Angolan, and South African militaries verbally agreed to exchange minefield mapping information. Furthermore they expressed concern about unknown minefields and agreed to cooperate to locate and map those minefields which had not been reported.

SENATOR INOUYE: Has the United States pressed for a plan for the removal of minefields left by the warring parties in Angola and Namibia? If not, why not?

AMBASSADOR HOLMES: As I stated before the UNTAG plan includes a company of engineers whose responsibilities include mineclearing operations. The Australians who will perform this role, along with their equipment, were flown in to Namibia by the U.S. Air Force prior to the start of implementation of Resolution 435 on April 1.

SENATOR INOUYE: Can I have your assurance that this issue will be made part of the Administration's agenda for discussion with the U.N. Secretary-General before further funds are disbursed?

AMBASSADOR HOLMES: The impact of the conflict on civilian populations is an issue that very much concerns the Administration, and we shall be certain to raise these mineclearing questions with the Secretary-General's Special Representative in Namibia during the course of our ongoing consultations on implementation of Resolution 435.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

EL SALVADOR

SENATOR HARKIN: I have read disturbing reports of both FMLN and Army conduct on the day of the presidential elections in El Salvador. The rebel stoppage of buses and harassment of voters, not to mention their policy of killing local mayors, constitute major human rights violations. I know I speak for all members of this subcommittee, as well as my colleagues in the entire Senate, that rebel behavior warrants condemnation by all self-respecting advocates of human rights.

However, I was also disturbed to read of what appeared to be a pattern of attacks on the press by the military on the day of the election. I am referring here to:

Air Force soldiers firing on two Salvadoran journalists, wounding one and killing the other, on the evening of March 19 at a checkpoint in Ilopango;

The killing of Mauricio Pineda, a sound egineer for Salvadoran Channel 12, after being stopped at an army checkpoint in San Miguel;

And the incident involving Cornelio LaGrouw, a Dutch TV cameraman, who appeared to have been shot during cross fire in Usulutan. Clearly, the armed forces are not responsible for his shooting. However, as a clearly marked press van attempted to take LaGrouw back to a nearby hospital, an Air Force helicopter gunship pursued and strafed the press vehicle. The firing was so intense and persistent that the car's driver was forced to take shelter in a house for forty minutes. LaGrouw died before the van reached the hospital.

Has the U.S. Government condemned the Salvadoran Armed Forces for their involvement in these incidents?

AMBASSADOR HOLMES: Ambassador Walker and other U.S. offcials have publicly deplored the deaths of the three journalists and have met with American, Salvadoran, and other journalists to convey our sympathies. We have made clear to the El Salvador Armed Forces (ESAF) the importance we place on resolving these cases epxeditiously, and they have responded accordingly.

SENATOR HARKIN: What investigation(s) have been undertaken into these incidients?

AMBASSADOR HOLMES: The Ilopango Justice of the Peace conducted a preliminary judical investigation into the shooting death at a checkpoint near Ilopango Air Base of independent Salvadoran photojournalist Roberto Navas, a stringer for Reuters, and his passenger Luis Galdamez, another Salvadoran photojounalist, who was wounded. The Salvadoran Armed Forces (ESAF) claim that Navas and Galdamez ran two checkpoints on their motorcycle without stopping, giving the impression that they were guerrillas. In contrast, Galdamez asserts that they stopped for one checkpoint and never saw the second checkpoint. Rueters representatives reiterated Galdamez's allegations to Ambassdor Walker on March 21 and added that the soldiers delayed at least one hour before moving Galdamez to a nearby hospital for treatment.

On March 29, the Justice of the Peace forwarded his findings to the Fourth San Salvador Criminal Court for further investigation. Fulfilling its pledge to cooperate fully with the civilian judiciary, the ESAF has turned over the troops to the custody of the courts. The names of the troops involved are: Lt. Saul Solano Reyes, Sgt. Efrain Guardado Moraga, Pvt. Cesar Caballero Pleites, Pvt. Francisco Cesar Gonzalez, and Pvt. Felix Rivas Gomez. Their trail recently began.

In the second killing, Mauricio Pineda, a sound man for Salvadoran Television Channel 12 News, was riding in the bed of a Channel 12 pick-up truck that was passing a checkpoint near San Miguel when it was fired on by two Arce Battalion soldiers. Pineda was killed. The Second San Miguel Justice of the Peace began the preliminary judicial investigation and ordered the detention of Cpl. Rafael Antonio Orellana Guevara. His trail has also begun.

According to the ESAF investigation into the death of Dutch photojournalist Cornel LaGrouw, the incident arose when LaGrouw was caught in a crossfire between Salvadoran soldiers and FMLN guerrillas who had attacked and occupied the town of San Javier in the Usulutan Department. The EASAF asserts that LaGrouw did not have permission to be in the area, but this has been disputed. Soldires in the town thought guerrillas were removing a wounded comrade in the vehicle and thus asked an ESAF helicopter pilot to stop the van in which LaGrouw was riding. It did so by firing warning shots in the vicinity. According to the governmental Human Rights Commission (CDH), there are no bullet holes in the vehicle, and the pilot broke off his fire when he recieved and order to return to evacuate wounded soldiers.

After a number of meetings between Salvadoran officials, the Dutch Government and journalists, the Dutch Foreign Minister has submitted a letter to the Dutch Parliament essentially accepting the El Salvadoran Government's explanation of the events surrounding this case. It is our understanding that the Government of the Netherlands plans no further action and considers the case closed.

SENATOR HARKIN: Can you explain to me how the Air Force helicopter pilots, whose faces the journalists in the press van could actullay see, could not know that the van was a press vehicle?

AMBASSADOR HOLMES: Recognizing the tragedy of these cases and the need for more professional and clearly defined future relations between the military and press, the High Command of the ESAF on April 12 issued new instructions and regulations to all military units to deal with and protect journalists practicing their profession in El Salvador. The revised guidelines order that:

1) Troops are not to fire on any vehicles marked "Press", even if they run a checkpoint.
2) Military aircraft are "in no case" to fire on such vehicles.
3) Troops cannot confiscate video equipment, film, or notes from journalists.
4) Soldiers must have permission from General Headquarters to arrest or detain journalists found in combat zones without proper safe conduct passes.
5) Troops are to "take all necessary measures to improve the relations beteween the military and the press."

It is our belief that these stricter guidelines demonstrate the good faith of the El Salvadoran Government and Armed Forces, and should go far to prevent a recurrence of these incidents.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

SHIFTING OF MILITARY AID TO DEFENSE BUDGET

SENATOR MIKULSKI: One of the foreign aid reform ideas being discussed is shifting the military assistance programs to the DOD budget. What are your reactions?

AMBASSADOR HOLMES: For more than forty years, security assistance has served as a valuable instrument of foreign policy. Because security assistance is provided for the purpose of strengthening U.S.-recipient country security relationships in our common defense interests, I believe that this program should logically remain within the International Affairs (150) budget function, under the overall policy direction of the Secretary of State. Such assistance will continue to serve as a key component of U.S. foreign and national security strategy.

BREAKING OF EARMARKS

SENATOR MIKULSKI: Last fall, Secretary Shultz apparently came very close to taking 2 percent off of all earmarked funds (by authority granted under Sec. 614 of the Foreign Assistance Act). How close did the Secretary come to taking this step? Is the reprogramming under Section 614 of the Foreign Assistance Act treated like other reprogramming? Is this sort of action still contemplated by the Department?

AMBASSADOR HOLMES: Military aid (Foreign Military Sales financing and Military Assistance Program grants) was heavily earmarked in FY 89 even as aggregate levels continued to decline relative to previous years. Moreover, earmarks of approximately 94 percent of FMS/MAP aid left no choice but to underfund important programs significantly, and to eliminate others.

The Administration considered ways to minimize the military aid shortfall, including the possibility of adjusting military funding earmarks across-the-board by two percent. This would have generated approximately $88 million for redistribution to underfunded priority countries. The Administration consulted informally with various members of Congress in order to seek their advice and ideas in connection with the military aid shortfall. However, no decision was made to proceed with a recommendation to the President that he consider exercising his authority under section 614 of the Foreign Assistance Act (FAA) to adjust earmarked levels.

Reprogramming resulting from the use of Presidential authority under section 614 would still have to be reported to Congress under section 634A, with a notification period of 15 days prior to obligation of funds not previously justified or funds in excess of the dollar amount justified in a Congressional presentation.

COORDINATION OF MILITARY ASSISTANCE WITH OTHER COMPONENTS OF FOREIGN AID

SENATOR MIKULSKI: The Hamilton report on foreign aid reform states: "At present, the military assistance program is not adequately coordinated with other aspects of U.S. policy towards recipient countries. U.S. embassies and military advisory groups do not coordinate. The Departments of Defense, State, and AID do not formulate a comprehensive coordinated strategy that integrates economic and military assistance." Please respond.

AMBASSADOR HOLMES: Military aid programs are in fact coordinated with other key aspects of U.S. foreign policy. For example, all overseas posts that administer military assistance are tasked each spring with the preparation of comprehensive annual integrated assessments outlining and justifying security assistance requirements according to U.S. policy objectives. Preparation of these reports is a country team effort under the U.S. ambassador. Thus, input is provided by each relevant section of the embassy, the military group, and the AID mission.

In Washington, recommendations on military aid programs are developed and coordinated through an interagency program review working group, which carefully considers a host of factors -- including political, economic, military, humanitarian, and arms control factors. Proposals for funded assistance are integrated thereafter into the overall budget request for International Affairs (Function 150).

QUESTIONS SUBMITTED BY SENATOR KASTEN

FAIR PRICING

SENATOR KASTEN: Last year, the Administration supported Fair Pricing legislation in the Senate that would have waived or eliminated many FMS surcharges intended to recoup fixed or sunk DOD costs, i.e., costs that DOD would incur even if the FMS program did not exist. Fair Pricing was not enacted in this form, but instead was limited to F-16 programs for Israel and Egypt. Does the Administration continue to support a comprehensive Fair Pricing proposal as did its predecessor and the last two Secretaries of Defense? How, and to what extent, is Fair Pricing able to stretch already scarce security assistance dollars?

AMBASSADOR HOLMES: The Administration continues to support the initiative to enact Fair Pricing legislation. Major cuts in security assistance have seriously hurt security partners who are dependent on U.S. military hardware for their self-defense. Fair pricing would eliminate add-on charges (such as non-recurring costs and asset use fees) applied to cases which are grant financed, thereby stretching scarce security assistance resources by about 4 percent on average and lowering costs significantly for purchasers. For example, had fair pricing been in effect last year, Israel could have saved approximately $31 million.

In a typical year, the FMS subsidy to the DOD budget would decrease by $156 million, meaning that U.S. funding would remain in the International Affairs account (budget function 150) and not be transferred to DOD. According to DOD, only the elimination of the asset use charge would result in foregone receipts, perhaps $25-$30 million a year, from cash-paying FMS customers.

DOD is willing to absorb these costs as a cost-effective reallocation of U.S. national security resources. Moreover, the aforementioned impact does not take into account the increased number of jobs, trade, tax revenues, and other economic benefits that would accrue if Fair Pricing stimulated higher sales levels.

U.S. AIR FORCE TRAINING IN MOROCCO

SENATOR KASTEN: It is my understanding that Morocco has expressed an interest in possibly permitting U.S. low level training flights, now increasingly a political problem in Western Europe. The old U.S. bases at Sidi Silimane and Kenitra, once used by the Strategic Air Command, are still usable, and might provide a convenient solution to the Air Force's problem. As recently as two years ago, in a demonstration of friendship toward our country, king Hassan offered to accept the U.S. 401st Tactical Fighter Wing when Spain ordered its departure from the Torrejon Air Base near Madrid. Since Morocco is not a NATO country, the offer was refused and the 401st was relocated in southern Italy. Why has the Administration proposed a $15 million cut in military aid to a country which has repeatedly demonstrated its willingness to be of assistance tho the United States?

AMBASSADOR HOLMES: Our FY 1990 request for Morocco is $40 million. This is the same level which the Administration requested for Morocco in FY 1989. Congress increased the FY 1989 Administration request for Morocco to $52 million. In an era of constrained funding levels, the Administration considers $40 million barely sufficient to meet Morocco's current defense needs: specifically, sustaining and selectively overhauling existing equipment.

SENATOR KASTEN: What progress is being made in negotiations with Morocco for the re-establishment of U.S. air base facilities in the country for the conduct of low-level military trraining flights, now increasingly a political problem in Western Europe?

AMBASSADOR HOLMES: The U.S. has for some time been considering various alternative sites for training of U.S. forces outside of Europe. It would not be appropriate in open hearings to go into diplomatic exchanges with various governments on this issue.

PAKISTAN CERTIFICATION

SENATOR KASTEN: U.S. law prohibits aid to Pakistan on grounds it may be nuclear-capable, but a waiver passed in 1981 allowed the President to lift the aid ban if he determined it was in U.S. national interests, and if he could certify that Pakistan did not possess the bomb.

Where does the United States now stand in regard to Pakistani nuclear certification?

AMBASSADOR HOLMES: In 1981, the President was granted statutory authority to waive Section 669 of the Foreign Assistance Act for Pakistan on national interest grounds. This authority was renewed in 1987 and the current waiver extends until April 1, 1990. In 1985, an additional requirement for continued assistance to Pakistan was adopted as Section 620E(e) of the Foreign Assistance Act -- the "Pressler" amendment. It requires an annual Presidential certification that Pakistan does not possess a nuclear explosive device and that the proposed United States assistance program will reduce significantly the risk that Pakistan will possess a nuclear explosive device.

The President made the required Pressler amendment certification most recently on November 18, 1988. We will need to review the evidence once again this Fall to determine whether a certification for Fiscal Year 1990 is warranted. The new Bhutto Government, well aware of our concerns about nuclear proliferation, has assured us that it does not intend to develop a nuclear weapon.

SENATOR KASTEN: Last November President Reagan sent a letter to Congress certifying that Pakistan does not possess a nuclear explosive device. The standard for such a certification is whether Pakistan possesses a nuclear explosive device, not whether Pakistan is attempting to develop or has developed various relevant capacities.

Is it the Administration's position that this standard should be retained, strengthened, or rolled-back?

AMBASSADOR HOLMES: The Administration is not requesting any change in the language of the Pressler amendment.

WESTERN SAHARA SETTLEMENT

SENATOR KASTEN: Recently, Morocco and the Polisario guerrillas, began discussions on ways to end the 13-year old secessionist insurgency. Under a proposed U.N. cease-fire plan, Morocco will be called on to reduce its troops in Western Sahara by 100,000 while an observer group would monitor the disengagement of the two combatants. The people of the Western Sahara then would be given the choice of independence or integration with Morocco. So far the war has left nearly 2500 Moroccan soldiers dead and has cost an estimated $1 billion annually, a principal source of the country's $18 billion foreign debt?

What is the estimated cost of the U.N, peacekeeping plan for the Western Sahara and will the United States be asked to bear a portion of the cost?

AMBASSADOR HOLMES: No estimates are yet available as to the size, composition, role, or cost of a possible UN peacekeeping operation in Western Sahara. Under normal circumstances, the United States would be assessed 30.6% of the overall budget for such a peacekeeping operation.

SENATOR KASTEN: In April, 1987, Morocco completed a 1440 km long, 2 meter high wall of sand along the border of Mauritania and the Western Sahara to monitor the movements of the Polisario guerrillas.

Will this wall be dismantled as part of an eventual the U.N. settlement?

AMBASSADOR HOLMES: Since details of the final agreement are far from being worked out, it is premature to speculate whether there might be any consideration given to dismantling the "berm" constructed by the Moroccan armed forces.

SENATOR KASTEN: What provision is being made under the U.N. plan to clear the battle zone of minefields to protect civilians moving back into the area? If none, will you recommend that this matter is discussed with the appropriate U.N. officials?

AMBASSADOR HOLMES: We are not aware of any consideration yet being given to removal of minefields in the disputed area, which in most instances is far from human habitation. We shall naturally raise this issue with the UN as the plan is developed.

BANGLADESH DISASTER RELIEF EQUIPMENT

SENATOR KASTEN: I understand that Bangladesh has approached our Government for disaster relief equipment and asked that it be provided through the military. Their request includes such non-lethal items as: small supply boats, utility helicopters, road building equipment, floating bridges, water purification plants and field hospitals. Time and again, the bangladesh military has demonstrated its ability to deliver both medical and materiel assistance to the country's citizenry, and during the recent floods served as the principal vehicle for humanitarian relief reaching outlying rural areas. Do you support the Bangladesh request?

MR. HOLMES: The Department of Defense (DOD) has worked closely with the Bangladesh Government (BDG) for the past two years to provide Bangladesh with disaster relief equipment through its excess property program. The State Department and the Agency for International Development (A.I.D.) support these efforts. Following the flood disaster in the summer/fall of 1988, DOD and A.I.D.'s Office of U.S. Foreign Disaster Assistance (OFDA) provided relief supplies to Bangladesh which included rubber rafts, medical supplies, blankets, portable water purification systems and plastic pipes. (A fuller list of items is attached at Tab 1).

DOD's Office of Humanitarian Assistance has received a detailed request list from the military attache at the Bangladesh Embassy in Washington. DOD is able to provide available items under Sec 2527 of Title 10 USC. DOD explains that its excess property program is by nature and by law a supply system. It is unable to pull automatically from off the shelf the items requested in any given country's submitted list. Before excess equipment can be donated to a foreign government, it must be declared excess by the DOD component that owns it and survive a 21-day screening period when item managers can claim it for DOD purposes. Upon expiration of the 21-day period the DOD Humanitarian Assistance program can claim property for foreign recipients. Some excess items on the Bangladesh list are being identified and prepared for shipment. Other items such as helicopters, some of the roadbuilding and water purification equipemnt will probably not come into the excess system in a condition that will allow utilization.

SENATOR KASTEN: If so, what are you doing to respond to the Bangladesh request in a timely fashion?

MR. HOLMES: Current items recently offered to Bangladesh by DOD include those listed below. (DOD has not yet received an affirmative answer on the cranes and the arc welders.)

Two shallow draft landing craft for rescue use and food delivery during flood periods. The boats were declared excess property by the U.S. Navy in Yokosuka, Japan and repaired, including installation of new engines, by the DOD Humanitarian Assistance Office. They are presently scheduled for shipment to Dhaka on May 10 from Yokohama, Japan aboard a Bangladesh freighter. This shipment will be cost free to the U.S. Government.

Two cranes: one 25-ton capacity and on 50-ton capacity.

Two arc welders: one in good condition, the other is being offered as spare parts.

The DOD Humanitarian Assistance Office has located several Caterpillar road graders in California and the Pacific region. At least six will be offered to the BDG if they are not claimed by the item manager for another DOD componenet during the 21 day period.

SENATOR KASTEN: Please provide this Committee with a timely assessment of Bangladesh's request, the estimated cost of the package, and the availability of the requested materiel within U.S. Government stocks.

MR. HOLMES: DOD has sent all Bangladesh requests to the Defense Reutilization and Marketing System in Battle Creek, Michigan for screening. As items become available in the U.S. or the Pcific region, they are shipped to Odgen, Utah or Okinawa unitl their is a sufficient quantity to constitute a shipment. Section 2547 of Title 10 USC authorizes donations of non-lethal excess supplies wihout cost to the recipient country. The costs incurred by the U.S. Government derive from shipping costs under the authority and appropriations contained in PL 100-456 sec. 303 and PL 100-463 Title II. The above noted authorities allow use of $3 million of the $13 million appropriated for transportation costs for all countries (except Afghanistan, which has $10 million earmarked for it). In FY 1989 we project shipping costs for DOD excess property to Bangladesh to be $371,000.

[MEMORANDUM FROM THE ASSISTANT SECRETARY OF DEFENSE]

MEMORANDUM FOR AMBASSADOR KAHN

23 SEP 1988

SUBJECT: Summary of DOD Relief Assistance to Bangladesh

As you know, the Department of Defense has been actively involved in supporting the relief operations of the United States Government in Bangladesh.

On August 19, 1988, a DOD funded C-141 landed in Dhaka carrying excess property for use during the present flooding disaster. The following cargo was offloaded and turned over to the U.S. Ambassador for transfer to your Government.

Item	Quantity
Litters	378 each
Sleeping Bags	178 each
Trousers	145 each
Blankets	2,265 each
Life Raft	1 each
Sleeping Mats	1,412 each
Pad, Absorbable	528 each
Mask, Oxygen	18 each
Rubber Rafts	16 each
Medical Supplies	6 skids

A second airlift landed in Dhaka on September 12, 1988 carrying relief supplies from the AID Office of Foreign Disaster Assistance. This C-5 airlift was funded by OFDA and the commodities on board were from OFDA stocks, identified as follows:

Item	Quantity
Plastic Sheeting	850 rolls = 2,210,000 sq ft
Plastic Water Jugs	10,010
Water Storage Container (3,000 gal capacity)	26
Portable Water Purification Systems (24,000 gal per/hr)	2
Plastic Pipe Flexible	5 crates

The C-5 aircraft carried a United States Government survey team headed by Mr. Jay Morris, Acting Administrator of AID and President Reagan's personal representative. Included on that team were two representatives from the US Pacific Command whose assignment was to review possible training projects for US engineer teams once the flooding subsided.

On September 19, 1988 a third DOD aircraft landed at Dhaka. This C-141 was funded by OFDA, but carried cargo from both OFDA and DOD excess stocks at Okinawa. The OFDA stocks consisted of water purification supplies, rescue boats and shelter supplies. The DOD excess stocks on board were as follows:

Item	Quantity
Cots	66
Medical Kits, Type C	6
Medical Kits, Type A	30
First Aid Kits	2
Sterilizer, Pressure Cooker, for Dressings	7
Sterilizer, Boiling Type for Instruments	6
Sterilizer	1
Alcohol	3 cartons
Suction/Pressure Apparatus	2
Bandages	3 cartons
Compress Bandages	20 cartons
Compress Bandage Gauze	8 cartons
Dressing, First Aid	2 cartons
Plastic Sheets	1 carton
Adhesive, Plastic Surgical	1 carton
Field Operating Table	4
Water Can, Drinking	10
Water Tank	1
Water Pump	1
Generator Set	1
Generator	1
Generator Panel	1
Plaster of Paris, Impregnated	1 carton
Surgical Instrument Stand	5
Tarps	12
Shelter halves	19
Blankets	40

I trust this information will be useful to you. I have asked the DOD Director of Humanitarian Assistance to continue searching for rubber boats and other excess commodities that will be helpful to your people and your government.

VR/Rich
Armitage

RICHARD L. ARMITAGE
Assistant Secretary of Defense
International Security Affairs

QUESTIONS SUBMITTED BY SENATOR D'AMATO

EL SALVADOR

SENATOR D'AMATO: The U.S. has given conditional support to the newly elected president of El Salvador, Alfredo Cristiani, based on his administrations's respect for human rights and democracy. By what yardstick will his performance be measured? Should aid be tied to some standard of performance?

AMBASSADOR HOLMES: The Salvadorans have, with our assistance, made great strides in democratization, improving respect for human rights, and extending the rule of law since the guerrilla insurgency began escalating in the late 1970's/early 80's. We should certainly expect continued progress on the part of the government of El Salvador in these areas. However, it would be counter-productive to establish overly specific criteria for gauging progress because such yardsticks lend themselves to easy manipulation by those in El Salvador who seek to derail U.S. support.

SENATOR D'AMATO: What lesson can we draw from the dropping of charges against suspected nembers of a right-wing kidnapping ring?

AMBASSADOR HOLMES: One lesson we can draw from the recent case you cite in which two of three suspected members of a kidnapping ring in custody were ordered released is the fact that President-elect Cristiani took steps to ensure the re-arrest of the accused, indicative that he is clearly concerned about preserving the gains made to date.

DRUGS

SENATOR D'AMATO: What priority have you assigned to providing aid to the Colombian armed forces to help them fight the cartel?

AMBASSADOR HOLMES: We assign a high priority to the security assistance program for Colombia. The fact that for FY 90 we have requested a level of security assistance three times that of the current fiscal year -- in the face of dwindling resources for that program -- is reflective of this. In addition to the resources we hope to provide through grant Foreign Military Sales Financing, we are also facilitating EXIMBANK financing for the Colombian government under the provisions of the Anti-Drug Abuse Act of 1988.

SENATOR D'AMATO: I note that you've asked for $20 million to support the Foreign Military Sales program for Colombia. In your report to Congress, you state that this financing program "... will provide much needed spare parts for helicopters, vehicles and weapons as well as ammunition, individual equipment, medical evacuation capability and medical training." Someone familiar with the situation in Colombia informed me that a Colombia soldier, when wounded in battle with guerrillas or drug traffickers, could expect to receive the level of medical care our soldiers received during the Civil War. Will the proposed aid program correct this?

AMBASSADOR HOLMES: We are encouraging the Colombian armed forces to overcome their deficiencies in military medical care, both in terms of basic supplies and equipment and through enhanced air mobility which will improve their medical evacuation capabilities.

SENATOR D'AMATO: According to the Department of State's March, 1989 International Narcotics Strategy Report, "Peru remains the world's leading coca producer with some 110,500 hectares of coca under cultivation." You've requested only $5 million in Foreign Military Sales funds for Peru. Do you believe this is an adequate response to this problem?

AMBASSADOR HOLMES: Unlike Colombia, where the armed forces are becoming heavily engaged in combatting narcotics traffickers, in Peru the emphasis to date has been on use of law enforcement personnel. With very limited exceptions, we are not permitted to provide security assistance funding to law enforcement units.

Although we are encouraging Peru's armed forces to increase their involvement in the fight against drug producers and traffickers, increasingly scarce resources limit what we can offer in the way of funding. We would agree that by itself, $5 million in security assistance is unlikely to be adequate to solve the problem of coca cultivation in Peru.

SENATOR D'AMATO: Are you aware of the Drug Enforcement Agency's "Operation Snowcap," part of which has been running in Peru? Are you aware of the serious problems facing American DEA agents attempting to work against the traffickers in the Upper Huallaga Valley area? Have you taken steps to improve the Peruvian military's ability to support these vital DEA operations?

AMBASSADOR HOLMES: I am aware of "Operation Snowcap" and the severe problems facing DEA personnel in the Upper Huallaga Valley. The Department of State has encouraged the Peruvian government to increase military involvement in this conflictive zone. Unfortunately, due to Peruvian arrearages in repaying prior-year Foreign Military Sales credits, at the moment we are legally unable to disburse even the modest amount of grant military aid it was possible to allocate to Peru from the limited resources ($1.5 million) available from this year's security assistance program, and narcotics-exclusive earmakrs would likely prevent the Peruvian military from accepting the aid in any event.

AGENCY FOR INTERNATIONAL DEVELOPMENT ADDITIONAL COMMITTEE QUESTIONS

ESF: CASH TRANSFERS

SENATOR LEAHY: The bulk of ESF is cash transfers for balance of payments support. Your Congressional Presentation Document says this gives us leverage to get developing countries to reform their backward economies. That is precisely what the World Bank and the IMF are for, and they have hundreds of times the resources we have to leverage reforms.

If that's what we want, why has our support for the multilateral institutions dropped by half since 1980 (from $3 billion to $1.5 billion)?

MR. BISSELL: Clearly many considerations go into determining the level of Administration requests for funding for multilateral institutions. We usually look at each institution individually, taking into account the needs of the area it serves, the financial situation of the institution, our perception of the institution's performance and progress toward meeting U.S. policy objectives in replenishment negotiations.

While in general we believe the multilateral institutions have done a good job, there have been times where disagreements on major issues have delayed, for significant periods, the conclusion of replenishment negotiations and therefore submission of funding requests (e.g., for the Inter-American Development Bank). In other cases it has been possible to reduce U.S. funding needs by reducing the percentage of paid-in capital needed to support a multilateral institution's work or to increase the burdensharing of other donors (e.g. Japan). In addition, the Administration has had to consider overall U.S. budget constraints and the continuing steep cuts made in our multilateral assistance requests by the Congress.

SENATOR LEAHY: Aren't they better able to get the economic policy reforms we want?

MR. BISSELL: Certainly the World Bank and the IMF are leaders in leveraging economic policy reforms, although many of the other multilateral institutions are not as active in this area. In many cases the U.S. designs its policy reform programs to support and reinforce those of the multilateral institutions. However, since these institutions do at times have slightly different priorities and points of view than does the United States, it is necessary to have our own balance of payments support/policy leverage mechanism.

SENATOR LEAHY: Why use our aid for this purpose, rather than on local self-help projects that have the strong support of the American people and give immediate help to the poor in those countries?

MR. BISSELL: We are convinced that the most important assistance we can provide to people in developing countries is assistance that helps them to stimulate employment and economic growth, thereby raising their national incomes as well as their individual family incomes.

The key constraint to economic growth and rising incomes in many developing countries is inappropriate macroeconomic and sectoral policies. For example:

- Many of the economic problems developing countries face can be traced to the propensity toward government control over the economy, rather than permitting market forces and individual enterprise to generate sustainable economic growth.

-- Price control policies, protectionist trade regimes, and regulations that limit broad participation in the economy also hamper growth.

Unfortunately, some countries delay the introduction of needed reforms when political and social instability break out or threaten to break out. Basically, A.I.D. uses ESF cash transfer and other sources of policy-based assistance to avert near term political and social instability that would otherwise result from recipient countries' financial difficulties. Such assistance helps countries during the difficult transition period of change in their economic and social structures.

The disbursements of A.I.D. cash transfer assistance, by providing resources over and above what would otherwise be available, actually cushion the recipient country from deeper economic shocks than would otherwise take place. Once economic stability is achieved and the proper policies are in place, a country can be launched on a firmer path of sustained economic growth. A structural adjustment program can thus have a considerable developmental impact by creating stability and encouraging growth-oriented policies, thereby attacking the underlying problems which inhibit economic development.

Policy reforms supported by ESF cash tranfers are often essential for addressing development problems that cannot be leveraged via other, usually smaller, and more narrowly focused projects. Economic policy actions usually focus on changing inappropriate policies -- for example, interest rates, exchange rates and public sector spending -- which are working against productive activity and growth. Thus, policy reform complements and strengthens the impact of development projects, including those which support local self-help activities. Over the long term, governments that adhere to sound economic policies have diminishing requirements to provide immediate help to the poor in their countries.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

EL SALVADOR

SENATOR HARKIN: How much money has the U.S. spent so far in El Salvador since 1981? How does the Salvador program rank in our overall foreign aid program? How much do you plan to spend on an annual basis over the next 5 years? Next 10 years? How have actual appropriations for El Salvador since 1984 matched up with Kissinger Commission recommendations? Mr. Bissell, how have appropriations for all Central America matched up with Kissinger Commission recommendations?

MR. BISSELL: From FY 1981 through 1988, A.I.D. obligated $2.261 billion in economic assistance to El Salvador. Military assistance totalled $851.5 million. El Salvador is currently A.I.D.'s fifth-largest program worldwide. Planned levels of economic assistance to El Salvador are $308.8 million for FY 1989 and $287.6 million for FY 1990.

A.I.D. anticipates that levels will decrease over the next 5-10 years assuming continued progress in winding down the insurgency and improved economic policy performance by the new government of

El Salvador, enabling private investment and other donor aid to increase. Exact assistance levels for future years are not available at this point. The levels will be reviewed continuously in light of these considerations as well as El Salvador's overall progress and needs.

The Kissinger Commission recommended total funding for Central America of $6.4 billion for five years (i.e. $1.2 billion annually), but did not recommend country-specific levels. In March, 1987, the President sent to Congress "A Plan for Fully Funding the Recommendations of the National BiPartisan Commission on Central America." This report recommended a stretch-out through FY 1992 of the $6.4 billion in funding given slower-than-anticipated progress in some areas and annual appropriation levels that were less than the full $1.2 billion. Adjusting the Kissinger Commission report to the Full Funding Plan, the requested versus actual levels for Central America are as follows:

FUNDING FOR CENTRAL AMERICA INITIATIVE
ACTUAL AND ORIGINAL RECOMMENDATION
($ MILLIONS)

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	Cumulative Total
Funding Recommended by Kissinger Commission 1/ 2/	375.0	1,170.0	1,170.0	1,170.0	826.0	818.0	786.0	6,315.0
Total A.I.D. Appropriations/ Request	375.0	919.3	816.2	1,009.8	779.3	760.6	737.1	5,397.3
Current Year Shortfall	--	250.7	353.8	160.2	46.7	57.4	48.9	917.7
Cumulative Shortfall		250.7	604.5	764.7	811.4	868.8	917.7	1,835.4

1/ Excludes approximately $30 million per year recommended for funding by Agencies other than A.I.D.

2/ Adjusted to Full Funding Report Levels in FY 1988-90

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

GAO RECOMMENDATIONS ON ESF

SENATOR MIKULSKI: Have you implemented the following recommendations? If not, why not? If so, are they working?

a) Concerning the commingling of funds, the GAO recommended that A.I.D. should require separate accounts for all ESF cash grants, not just some.

MR. BISSELL: A.I.D. has implemented separate accounts for all ESF cash transfers. However, A.I.D. has not implemented separate accounts for ESF sector program assistance. The reason for this is A.I.D. views sector program assistance as distinct from cash transfer assistance, both conceptually, and in terms of how disbursements are made. Requiring separate accounts for sector program assistance would only make it a less valuable development tool.

Last summer I reviewed a series of options on the issue of separate accounts for sector programs. I did not choose an option, but rather instructed my staff to develop more concrete guidelines on sector assistance and how it is distinguishable from cash transfers. I believe the new guidelines will minimize the risk of "cash transfer-like" sector programs being approved.

SENATOR MIKULSKI: b) Where A.I.D. does require countries to record disbursements, GAO recommended that A.I.D. should verify those records.

MR. BISSELL: A.I.D. does require missions to verify host government reports on disbursements of dollars and local currency from special accounts. In the case of dollar disbursements, A.I.D. guidance (dating from October of 1987) notes that "appropriate procedures for specifying and tracking uses of dollars released from the separate account, and associated accountability arrangements, will vary, depending on the nature of the assistance..." but that "each of the approaches requires adequate monitoring and audit rights agreed to by the recipient, a monitoring commitment by A.I.D. staff..." etc. In the case of local currency disbursements, A.I.D. missions must verify host government reports on the uses of local currency on a sample basis. This duty is established by the annual Internal Control Assessment process, undertaken as required by the Federal Managers' Financial Integrity Act. During the annual Internal Control Assessment, missions must also verify that all cash transfer dollars are deposited into a special account and not commingled with other resources.

SENATOR MIKULSKI: c) Where ESF cash is used to encourage governments to carry out economic reforms, GAO claims that reform goals are sometimes unfocused and recommended that A.I.D. spell out: specific reform objectives, timeframes, and expected impact.

MR. BISSELL: A.I.D. concurs with the GAO recommendation and has already taken steps to implement the recommendation. Reflecting this, the attached guidance was sent to all A.I.D. offices on August 8, 1988, instructing them that all ESF cash transfer Congressional Notifications would include the following additional information:

1. clear statement of goals and specific economic objectives of the cash transfer program;
2. any economic or political conditions precedent to disbursement (aside from standard CPs);
3. a listing of approved use of the funds; and
4. the schedule for disbursement of the cash grant (e.g., quarterly, annually, upon satisfaction of a specific CP, etc.).

A.I.D. intends to follow up this directive with guidance (now under preparation) to our field missions on the design, content and disbursement criteria for economic programs that we are supporting with cash transfers. These elements should be clearly set forth in the documentation submitted to A.I.D. for approval. ESF is a uniquely valuable resource to A.I.D. and I wish to preserve the programming flexibility it provides by linking the disbursement of ESF resources to the timely implementation of appropriate economic policy programs.

[MEMORANDUM FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT]

MEMORANDUM

August 8, 1988

TO : See Distribution

FROM : LEG, Kelly C. Kammerer
GC, Howard M. Fry

SUBJECT: Additional Guidance for Preparation of Congressional Notifications for ESF Cash Transfers

This guidance supplements the February 23, 1988 memorandum on preparation of Congressional Notifications (CNs). As noted in the earlier guidance, the FY 1988 Continuing Resolution requires that any ESF cash transfer assistance to any country must be notified 15 days in advance of obligation. That provision is quoted below:

> "Provided further, That at least 15 days prior to obligating any such cash transfer assistance to a foreign country under this heading [Economic Support Fund], the President shall submit a notification to the Committees on Appropriations, the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate, which shall include a detailed description of how the funds proposed to be made available will be used, with a discussion of the United States interests that will be served by the assistance (including, as appropriate, a description of the economic policy reforms that will be promoted by the cash transfer assistance)" ...

In placing earlier ESF cash transfer CNs on hold, Congressional committee staff have expressed concern about the lack of adequate information to provide a "baseline" to judge the effectiveness of A.I.D. cash transfer programs. The committee staff are particularly interested in economic objectives and financial accounting procedures of the cash grants. Specifically, they would like a clear statement of what A.I.D. and the host country hope to achieve (and whether these achievements can be evaluated) and the conditions precedent to disbursement of funds.

To address these concerns it was agreed that all ESF cash transfer notifications would include the following additional information:

1. a clear statement of goals and specific economic objectives of the cash transfer program;

2. any economic or political conditions precedent to disbursement (aside from standard CPs);

3, a listing of approved use of the funds; and

4. the schedule for disbursement of the cash grant (e.g., quarterly, annually, upon satisfaction of a specified CP, etc.).

Moreover, any ESF cash transfer notification will be followed, as soon as the information is available by FM, with a certification that a separate bank account has been established for the funds, and will include the following information:

1. the name of the bank to which the cash grant has been deposited for the host government;

2. the number of the bank account; and

3. the name or other identification of the account receiving the funds.

This notification procedure is to become effective immediately.

DISTRIBUTION:
Assistant Administrators and Office Heads
Assistant General Counsels
Bureau/Office Program Offices

INTEGRATION OF MILITARY AND ECONOMIC ASSISTANCE

SENATOR MIKULSKI: The Hamilton Report on foreign aid reform states: "At present, the military assistance program is not adequately coordinated with other aspects of U.S. policy towards recipient countries. U.S. embassies and military advisory groups do not coordinate. The Departments of Defense, State and A.I.D. do not formulate a comprehensive, coordinated strategy that integrates economic and military assistance." Please respond.

MR. BISSELL: A.I.D., of course, is not responsible for military assistance. We do work closely with State, however, to coordinate programs (and track implementation of mutual priorities). We also communicate on a regular basis with DOD, including the Defense Security Assistance Agency (DSAA). Coordination/communication is accomplished both between the regional bureaus and between central policy and budget entities (State-A.I.D.-DOD). In the field, coordination is accomplished through the country team mechanism - military advisory groups also are under the aegis of the Ambassador. A.I.D. participates in the preparation of the Security Assistance Congressional Presentation document; e.g. we edit, clear (and sometimes write) ESF sections of the CPD.

QUESTIONS SUBMITTED BY SENATOR KASTEN

PROJECTIZING ESF IN EL SALVADOR

SENATOR KASTEN: Most of our assistance to Central America is in the form of cash transfers, which make hard currencies available to purchase goods required for industries which in turn provide jobs and produce exports. Some critics, especially with respect to El Salvador, have suggested that this type of assistance has not been helpful especially to the poor of that country, and that we should therefore projectize up to 50 percent of our assistance.

What is your view of such a proposal?

MR. BISSELL: Increasing the percentage of projectized ESF in El Salvador to 50 percent is not necessary and could seriously undermine A.I.D. efforts to concentrate our ESF assistance on priority problems in that country, problems which directly affect the poor. It is unnecessary because A.I.D. already operates the largest DA portfolio in the world in El Salvador. In FY 1990, we have requested $67.5 million in DA and eighty-one percent of this is programmed for health, education and agriculture projects. We also plan to spend $45 million in ESF on projects. The two together mean that over 45 percent of our ESF/DA portfolio is already projectized.

Moreover, increasing the percentage of projectized ESF would directly reduce our leverage in all policy reform areas: economic, social and political. Our ability to pursue and exert continuous pressure on areas such as the elimination of human rights violations, the deepening of the democratic process and the expansion of the economy would be considerably weakened. Reduction in balance of payments support would translate into reduced imports for production and reduced economic growth and employment. Even if social services were to increase as a result of additional project activities, the trade-off in terms of increased unemployment and deteriorating incomes would ill-serve the poor in that country.

ESF CASH TRANSFER - EGYPT

SENATOR KASTEN: President Mubarak's visit to Washington moves me to ask whether we will soon make an announcement concerning the release of the withheld cash transfer for his country. Is such an announcement forthcoming?

MR. BISSELL: During the Egyptian president's visit to the U.S., President Bush stated that President Mubarak "enjoys our full support as he implements courageous reform measures to strengthen Egypt's economy for future generations." Our cash transfer assistance will be part of that support as reforms are introduced. In keeping with the instructions contained in the legislation, disbursement of the cash transfer will take place as the Egyptian government implements its reform program. We will be consulting with Congress when we have a more detailed proposal for the release of the money, which we are working out in cooperation with the Egyptian government.

ESF VERSUS DEVELOPMENT ASSISTANCE

SENATOR KASTEN: Those of us involved in foreign assistance matters frequently get into discussions concerning how much development assistance is provided as compared to how much security assistance. I have assumed that approximately 25 percent to one third of ESF is utilized as development assistance. Is that assumption correct?

MR. BISSELL: Yes, your assumption is correct. In FY 1990, we expect to roughly maintain the same proportional split for our ESF program between cash program aid (58 percent to 60 percent), projects (30 percent to 33 percent) and commodity import programs (7 percent to 9 percent).

SENATOR KASTEN: I also assume that the great majority of your officials operating in the field would rather design and implement projects under the authority of ESF rather than development assistance authorities, because the former offers much more flexibility. Do you agree with that assessment?

MR. BISSELL: It is true that ESF allows for greater flexibility in programming than does development assistance. In some respects, however, this speaks more to the limitations of DA than it does to the utility of ESF.

Because most of our development assistance DA funds are broken out by functional account, DA must be programmed according to the "type" of DA which is allocated to each mission after the appropriations process. As a result, in some countries we must search out projects which correspond to a functional account mix, rather than devoting DA resources to the most pressing needs of that country. It was for this very reason that we -- both A.I.D. and this Subcommittee -- agreed two years ago to experiment with a new modality for development assistance which removed the constraints imposed by functional accounts. The Development Fund for Africa, while still in an experimental stage, has allowed us to program resources in a more rational and responsive manner. In light of this apparent success, we are developing proposals to replicate this concept in other geographic regions, which should be submitted in our FY 1991 budget presentation.

DEFENSE SECURITY AGENCY
ADDITIONAL COMMITTEE QUESTIONS

OVERDUE LOANS

SENATOR LEAHY: DSAA is required to report quarterly to the Department of the Treasury on the status of loan repayments. As of September 30, 1988, 29 countries were in arrears on FMS loans totalling $768 million, of which more than $465 million was more than 90 days past due.

FOR THE RECORD, please provide this Committee with a table showing the status of overdue guaranty and direct loans as of the date of this hearing.

OVERDUE GUARANTY AND DIRECT LOANS
MARCH 31, 1989
($ IN THOUSANDS)

Country	Due and Unpaid
Bolivia	$ 767
Botswana	10
Cameroon	234
Colombia	42
Dominican Republic	1,994
Ecuador	371
Egypt	444,121
El Salvador	12,206
Ethiopia	2,131
Gabon	100
Haiti	52
Honduras	4,629
Jamaica	299
Jordan	4,289
Kenya	705
Liberia	4,109
Morocco	19,832
Nicaragua	302
Niger	77
Pakistan	5
Panama	2,799
Peru	5,658
Philippines	5,584
Portugal	2
Rwanda	3
Senegal	284
Somalia	4,237
Sri Lanka	1
Sudan	32,453
Turkey	135
Tunisia	6
Zaire	12,609
TOTAL	$560,046

MILITARY ASSISTANCE: FAIR PRICING

SENATOR LEAHY: Please explain your fair pricing proposal. What is the justification for it? As far as the U.S. taxpayer is concerned, what is "fair" about relieving foreign countries from a part of the selling price for American weapons? Right now, we apply a limited form of fair pricing to Israel and Egypt. Why are you trying to extend it to all military sales customers, and not just confine it to these two nations of special importance to the U. S.?

LTG BROWN: We are proposing to reduce certain charges to FMS customers, especially grant assistance customers, charges which we are currently required to levy by law.

The charges we propose to eliminate are:

1. NRC charge (for R&D), for grant assistance recipients only.
2. Asset Use charge, for all customers.
3. Military salaries for administration of the program.
4. Unfunded civilian retirement costs.

To explain each one of these charges a little further:

1. NRC charge is a sunk cost. Collections are credited to Miscellaneous Receipts of the Treasury, then credited to DoD as offsetting receipts.

- We would eliminate it for grant recipients because it is simply being transferred from the 150 account to the 050 account. We would continue to collect it from cash customers, thought the law permits us to waive it for NATO, Japan, Australia, and New Zealand.

- We figure we would stretch the account by $25 million a year this way (out of roughly $4.3 billion in grant funding).

2. Asset use charge is an accountant's cost, to cover the depreciation of equipment used in producing items for FMS. We charge 1%, and as a result we collect about $37 million a year. This goes to miscellaneous receipts of the Treasury, and is then credited to DoD. We estimate that $25-30 million of this comes from cash customers, and thus $7-12 million is a transfer from 150 to 050. This is the only measure where we forego some receipts from cash customers, but eliminating a 1% charge helps our competitiveness a tiny bit. We propose to eliminate it because it is such an arbitrary charge.

3 Military salaries used to be absorbed by DoD, through 1976. This amounts to about $60 million a year, and are the salary charges for general administration of the FMS program.

- Of the $60 million, $34 million is reimbursement for salaries of military personnel in Security Assistance Offices (SAOs) worldwide, and $26 million for military personnel who work on FMS in the US.

- Of the $34 million for the SAOs, $16.7 million is funded from MAP General Costs and $17.3 million form the 3% charge. All of the $26 million is funded from the 3% surcharge.

4. We also propose to stop reimbursement to the Military Departments for unfunded civilian retirement costs, which are also funded out of the 3% administrative surcharge funds. These amount to about $34 million a year. These reimbursements pass through the Services and back to Miscellaneous Receipts to the credit of the Civil Service Retirement Fund.

Please remember that, even for grant-funded FMS cases (MAP or FMS nonrepayable financing), we must levy the 3% Administrative Surcharge in order to administer the programs.

If we don't eliminate the reimbursements for military salaries and unfunded civilian retirement costs, we will have to raise our FMS administrative surcharge to 5% to maintain administration fund solvency. If we do that, it has two effects:

- One is to drive away FMS customers, either into commercial channels or to other suppliers.

- The second is to put an additional 2% levy on the 150 account assistance funds, the opposite of stretching scarce assistance resources.

- We have already reduced our FMS administrative budget to the bone. We imposed a $66 million reduction on the Services two years ago. We also instituted an additional 3.1% charge on logistics cases, which require much more administrative hand-work. So we are not expanding administration; we have shrunk it, and we are at an irreducible minimum since the case load remains the same.

The gross net affect of the reductions of the NRC and Asset Use charges would be to save 4% for grant customers, and maybe one-half percent for cash customers (the 1% asset use charge is applicable in about half the cases), plus the cost avoidance of 2% in each case from avoiding the increase of the FMS administrative surcharge from 3% to 5%.

DoD is prepared to absorb the loss of the direct reimbursement of $60 million a year in military salaries and the offsetting receipts, which we estimate to be around $96 million a year.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

SECURITY ASSISTANCE: FMS DEBT REFINANCING

SENATOR INOUYE: Which countries have taken the opportunity to refinance their FMS debt at lower, commercial rates? What other countries are planning to do so?

LTG BROWN: We reported to the Congress at the beginning of March that Israel, Tunisia, Turkey, Jordan, Spain and Pakistan had completed their refinancings. At this time we have considerably less activity. We are engaged in the processing and review of an application from Kenya and expect Thailand to refinance in the near term. There is some interest in the refinancing of both Greece (but not until after their elections) and Morocco later this year. Honduras and El Salvador have also shown some interest in refinancing.

SENATOR INOUYE: Why has Egypt not taken advantage of this opportunity to refinance its enormous FMS debt?

LTG BROWN: Egypt's FMS debt is enormous--a complete refinancing would involve sums in excess of $5,000,000,000.00. Even if Egypt were to refinance now, with less than favorable interest rates, there would still be real doubt as to whether or not Egypt could successfully service the debt. As a practical matter, Egypt has made no payments on its FMS debt since October 1987, through use of the 365 day grace period offered by the Brooke Amendment and the use of Paris Club reschedulings. At the moment, Egypt is again looking at coming to some agreement with the IMF and with the Paris Club. This, if successful, could obviate the immediate need to engage in refinancing.

There is a timing problem, however, because beginning this July Egypt faces a series of payments which, if missed, could trigger the sanctions of the Brooke Amendment. But if they refinanced, they would confront the new reality of having to remain current on their FMS debt within 90 days, or the financing cutoffs imposed by the debt reform legislation would take effect. Some financial institutions are exploring ways to combine a series of partial refinancings for Egypt in such a way that takes maximum advantage of the provisions of the law and regulation to ease Egypt's cash flow.

One of Egypt's refinancing problems, of course, is that it is not an easy matter for it to collateralize any unguarantied portions of a refinancing. For example, to come up with collateral for a complete $5 billion refinancing, would effectively require Egypt to be able to write a check to pay for the right $500 million in Treasuries. There is a better chance that Egypt could perhaps write a series of much smaller collateral checks for a series of roll-over refinancings.

The least costly route for the Egyptians in terms of seeking debt relief would be for them to use appropriated monies to provide the Federal Financing Bank the present value premium required to reduce the interest rate on its FMS debt. To buy-down the Egyptian debt to an interest rate of just over 9% would cost about $800 million--this way they would avoid all fees and other underwriting costs and the entire transaction would be on a government-to-government basis.

SENATOR INOUYE: Have there been any problems with the way in which the Administration drafted the regulations governing the refinancing?

LTG BROWN: The regulations are working quite well; they were very carefully crafted and, in fact, have been very important in overcoming some of the deficiencies of the legislation. It is only because of the regulations and the spirit of cooperation attendant to their drafting and implementation by Treasury, State and DSAA that countries like Turkey, Jordan, Pakistan, Tunisia, and now Kenya can take advantage of the refinancing opportunity offered by the debt reform legislation.

DEFAULTS AND RESCHEDULINGS

SENATOR INOUYE: Since the mid-1970s through fiscal year 1987, the U.S. Government has made almost $4.6 billion in payments to the Federal Financing Bank (FFB) due to nonpayment on scheduled guaranteed loans. Of this amount, foreign governments have repaid the Guaranty Reserve Fund (GRF) about $3 billion, leaving a balance due the fund of about $1.6 billion as of September 30, 1987.

SENATOR INOUYE: Which countries have failed to make their loan payments on scheduled guaranteed loans?

GENERAL BROWN: The information requested is provided in the table below:

Bolivia
Botswana
Brazil
Cameroon
Colombia
Costa Rica
Dominican Republic
Ecuador
Egypt
El Salvador
Ethiopia
Gabon
Greece
Guatemala
Haiti
Honduras
Indonesia
Jamaica
Jordan
Kenya
Lebanon
Liberia
Morocco
Nicaragua
Niger
Oman
Pakistan
Panama
Paraguay
Peru
Philippines
Portugal
Rwanda
Senegal
Somalia
Spain
Sri Lanka
Sudan
Taiwan
Thailand
Tunisia
Turkey
Uruguay
Zaire

SENATOR INOUYE: Of these countries in default, how many are now in danger of coming under the terms of the Brooke Amendment and having no new obligations of assistance?

GENERAL BROWN: Ethiopia, Nicaragua, Liberia, Panama, Peru, and Sudan are currently under Brooke Amendment sanctions. Other countries in danger of coming under the Brooke Amendment because of arrearages extending nine months or more include Bolivia, Dominican Republic, Egypt, El Salvador, Gabon, Honduras, Jordan, Somalia, and Zaire.

SENATOR INOUYE: What recommendations are you making to those countries which are near, or have fallen under the terms, of the Brooke Amendment?

GENERAL BROWN: My Comptroller organization goes to great efforts to advise those countries under or close to Brooke Amendment sanctions as to the status of their FMS loan payments. In all instances, we advise them of the application to specific loan interest and principal scheduled payments of any payments while in the arrears; and, in many cases, we provide them with the amount of the oldest arrearage and its required payment date to avoid Brooke. For other countries who are chronically in arrears at the "brink of Brooke," we provide projections of incremental payments, by loan and payment date, necessary to avoid Brooke sanctions. In concert with State officials, we sometimes advise a country that it should consider FMS debt relief both for arrearages and prospective payments through the Paris Club, indicating, however, that until such time as the Paris Club minute as well as the related USG bilateral agreement is signed, the country must continue to make scheduled payments within the one calendar year period.

SENATOR INOUYE: For the Record, please provide a table showing the 1988 year-end outstanding balances for DSAA payments made in behalf of foreign governments that have failed to make payments on their guaranteed loans when due.

AMOUNTS FOREIGN GOVERNMENTS OWE THE GUARANTY RESERVE FUND
SEPTEMBER 30, 1988
($ IN THOUSANDS)

Country		Amount
Bolivia	$	729
Botswana		128
Cameroon		872
Colombia		243
Dominican Republic		5,557
Ecuador		15,609
Egypt		1,189,330
El Salvador		19,008
Gabon		5,421
Haiti		63
Honduras		8,990
Jamaica		1,793
Jordan		73,925
Kenya		2,166
Liberia		10,425
Morocco		166,678
Nicaragua		389
Niger		3,069
Panama		4,998
Peru		11,519
Philippines		100,758
Senegal		7,201
Somalia		37,852
Spain		56
Sri Lanka		3
Sudan		54,452
Turkey		479,992
Zaire		17,728
Other		14,212
		$2,233,166

MILITARY ASSISTANCE: FAIR PRICING

SENATOR INOUYE: I understand that in the absence of Fair Pricing, DoD will almost certainly have to increase the administrative surcharge levied on FMS sales in order to meet the minimum costs of program administration. This charge would likely go from the current 3 percent of case value to 5 percent -- a substantial increase and a significant new burden on already financially pressed aid recipients. This increase will also harm the competitiveness of U.S. defense products and services as well as reduce the overall value of U.S. military assistance funds. This sounds like a paradox. Please explain why this surcharge increase is necessary if comprehensive Fair Pricing is not enacted?

LTG BROWN: To answer the question, I will first discuss the basic elements of the Fair Pricing proposal and then explain why, absent Fair Pricing, the surcharge increase is required. We are proposing to reduce certain charges to FMS customers, especially grant assistance customers, charges which we are currently required to levy by law.

The charges we propose to eliminate are:

1. NRC charge (for R&D), for grant assistance recipients only.
2. Asset Use charge, for all customers.
3. Military salaries for administration of the program.
4. Unfunded civilian retirement costs.

To explain each one of these charges a little further:

1. NRC charge is a sunk cost. Collections are credited to Miscellaneous Receipts of the Treasury, then credited to DoD as offsetting receipts.

- We would eliminate it for grant recipients because it is simply being transferred from the 150 account to the 050 account. We would continue to collect it from cash customers, thought the law permits us to waive it for NATO, Japan, Australia, and New Zealand.

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- One is to drive away FMS customers, either into commercial channels or to other suppliers.

- The second is to put an additional 2% levy on the 150 account assistance funds, the opposite of stretching scarce assistance resources.

- We have already reduced our FMS administrative budget to the bone. We imposed a $66 million reduction on the Services two years ago. We also instituted an additional 3.1% charge on logistics cases, which require much more administrative hand-work. So we are not expanding administration; we have shrunk it, and we are at an irreducible minimum since the case load remains the same.

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DoD is prepared to absorb the loss of the direct reimbursement of $60 million a year in military salaries and the offsetting receipts, which we estimate to be around $96 million a year.

SENATOR INOUYE: How important is it that any new Fair Pricing initiative be applied to all purchasers of U.S. military equipment and not simply Israel and Egypt?

LTG BROWN: The most important benefit from Fair Pricing is that it will stretch scarce military assistance resources. Recent budget reductions have hurt all of the countries receiving military assistance, forcing most to bear large funding cuts and preventing others from gaining needed increases. Last year's one-time fair pricing breaks for Israel and Egypt helped those two countries substantially in one program only, but did nothing for the great majority of assistance countries whose funding has declined year after year. Fair Pricing, as sought by the Administration, would give real help to all deserving countries. It is very important therefore, that Fair Pricing -- for all countries -- be enacted this year.

SENATOR INOUYE: Will Fair Pricing enhance the competitiveness of American weapons sales?

LTG BROWN: Yes, Fair Pricing would increase the competitiveness of U.S. defense articles and services. It would lower costs for all purchasers, though especially for grant-aid countries. Naturally, this would make purchases of U.S. goods and services more attractive. Fair Pricing would allow DoD to avoid increasing the current 3% admin. surcharge on all FMS sales. The current 3% surcharge no longer can cover the administrative costs required by law. Unless those costs are reduced by Fair Pricing, DoD will have to increase the surcharge, probably to 5%. Such a big increase would not only further erode scarce assistance resources, but would drive countries away from the FMS system, and probably initiate a vicious cycle of declining sales and increasing surcharges. As a result, the U.S. would lose the access and influence it achieves through sales, as well as the substantial contribution of sales to the defense industrial base; economies of scale in DoD procurement; trade; and jobs.

SENATOR INOUYE: Has Fair Pricing legislation been submitted to the authorization committees? If so, do you anticipate any difficulty?

LTG BROWN: Yes, Fair Pricing legislation has been submitted to the authorization committee. It has been incorporated into the House Foreign Aid Authorization Bill. We do not anticipate any difficulties provided the Congress passed an authorization bill this year. While Fair Pricing does entail a small cost to the Military Departments' budgets, DoD is prepared to absorb these costs. The last two SECDEFs have strongly supported Fair Pricing as a cost-effective reallocation of U.S. national security resources.

DSAA ADMINISTRATIVE EXPENSES

SENATOR INOUYE: I understand that at present, DSAA is self-supporting. Your agency derives funds from the military assistance program appropriations and the administrative fee of 3 percent plus, I am told, a logistics surcharge.

SENATOR INOUYE: Are these the only sources of funds collected by your agency from military sales customers above the direct cost of equipment purchases? If not, what are the other charges?

GENERAL BROWN: In terms of charges to cover the cost of administering the FMS program (including DSAA costs) the two charges you mentioned are the only ones assessed in connection with FMS transactions.

SENATOR INOUYE: What is the "logistic surcharge"? How is it assessed?

GENERAL BROWN: The logistics support charge (LSC) is designed to recover those DoD costs that are primarily associated with providing logistic support to FMS customers. Logistic support being defined generally as spare parts, equipment modifications, maintenance, secondary support equipment, and supplies. The charge is assessed by adding 3.1% to the price of each item delivered that is included in one of the five LSC categories mentioned above.

FMS CHARGES

SENATOR INOUYE: Please provide for the record a complete itemization of all DSAA charges to military sales customers above the actual cost of equipment purchased.

LTG BROWN: Information on Foreign Military Sales (FMS) Surcharges follows:

- There are no "DSAA Charges" assessed on FMS. The Arms Export Control Act requires recovery of all direct and indirect costs. Over the past several years the number of surcharges has grown based on OSD Comptroller determination of needed charges, in response to GAO allegations that DOD was not recovering full costs and based on the need to cover the costs of administering the program. The full extent of surcharges has become very complicated over time. Many of the surcharges apply to specific situations and some apply across all sales.

FMS Surcharges applicable to all sales:

FMS Administrative Fee	3%
After 1 Oct 1977	3%
Prior to 30 Sept 1977	2%
For non-standard acquisition	5%
For FMSO I CLSSA Programs	5%
For FMSO II CLSSA Programs	3%
Logistics Support Charge..(For support items)	3.1%
Non-Recurring cost recoupment charge ..(average)	5%
For Major Defense Equipment(MDE)- pro rata charge-	
For non-MDE	5%
For older equipment w/o investment data	4%
Asset Use charge for use of DOD production facilities	4%
For stock issues	1%
Quality Assurance and Inspection	.5%
Contract Administration	.5%
Contract Audit	.5%

FMS Surcharges applicable to specific sales:

Inflation rates (to bring stock prices to current year values)

Force rearrangement on stock replacement prices	10%
Industrial Fund (interest on investment)	10%
CLSSA storage fee (for on-hand FMSO I)	1.5%
Classified Publications	20%
Royalty Fee for in-country use of U.S. technical data (based on U.S.item price)	5%
Royalty Fee for third-country use of U.S. technical data (based on U.S. item price)	8%

Personal Services:

DOD Civilians-	Retirement	20.4%
	Leave/Holidays	18.0%
	Benefits	5.6%
Military	Retirement	26.5%
	Leave/Holidays	18.0%
	Officers Benefits	23.0%
	Enlisted Benefits	8.0%

Accessorial Charges:

Parcel Post	3.75%
Packing, Crating and Handling	3.5%
CONUS Inland Transportation (non-excess)	3.75%
CONUS Inland Transportation (excess)	3.0%
Ocean Transportation to Europe/Med	4.0%
Ocean Transportation to South America/Far East	6.0%
U.S.Port Loading	2.5%
Overseas Port Loading	1.0%
Overseas Port Unloading	1.0%
Overseas Land Transportation	3.0%
Storage Charge	1.5%
Prepositioning of materiel sold from Europe	14.25%
Staging/Assembly for shipping	3.0%
Use of U.S. air	Actual
Engineering Support	Actual
Rate tooling	Actual
Program Management	Actual
Case Management	Actual

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

EL SALVADOR

SENATOR HARKINS: I would like to address the question of U.S. policy in El Salvador. On that point, I recently reread a 1988 study written by four lieutenant Colonels in the U.S. Army while they were National Security Fellows at Harvard University's John F. Kennedy School of Government. Its authors said there was no immediate prospect for the Salvadoran military to defeat the FMLN guerrillas.

"In the tactical sense," the report said, "El Salvador's armed forces [have] gained the advantage. But this advantage hardly matters. Observers generally concede that the FMLN tough, competent, highly motivated can sustain its current strategy indefinitely... ... and end to the war appears nowhere in sight."

"The colonels concluded, "By most estimates, the war in El Salvador is stuck. Unhappily, the U.S. finds itself stuck with the war."

To use a phrase often applied to Vietnam, General Brown, in El Salvador is there a light at the end of the tunnel? If so, how far away is it, and how much will it cost U.S. taxpayers, in terms of military and economic aid, to get there?

LTG BROWN: Before getting into specifics, the Lieutenant Colonel's report must be placed in context. It covers experiences in 1983, six years ago. Much has changed since that time. The military has the advantage now. The FMLN has been unable to continue large scale attacks in the field, and has shifted to urban terrorism, assassinations of key government officials, and attacks on their homes and families, This is the sign of their weakness. The FMLN is trying to turn this weakness into a political opportunity by causing a violent reaction by the government that will cause the United States to stop its aid. The FMLN is trying to win the war in Washington.

We are not stuck in this war. If the government of El Salvador does not respect the democratic process and human rights, our assistance will cease. What we are stuck with is a determination to back governments elected by the people and threatened by Marxist insurgencies.

The extent and nature of our support for the war in El Salvador depends on the incoming Cristiani government. Mr. Cristiani made a very favorable impression during his recent visit to Washington. Democracy and human rights are clearly top priorities with him. He also spoke of the need to bring peace to El Salvador. We will watch events closely while maintaining overall support to the democratic process and human rights.

SENATOR HARKIN: I have been informed that the people at SOUTHCOM have prepared a response to the colonel's report. If so, could you make that response available to my office?

LTG BROWN: We have asked SOUTHCOM for a copy of what they have written. We will review it and get in touch with your staff.

SENATOR HARKIN: How much money has the U.S. spent in El Salvador since 1981?

LTG BROWN: A total of $3.362 billion dollars has been allocated or spent in assistance to El Salvador since 1981. This includes the FY89 allocation of $373 million.

SENATOR HARKIN: How does El Salvador rank in our overall foreign aid program?

LTG BROWN: In terms of overall assistance requested for FY90, El Salvador ranks number seven behind Israel, Eqypt, Pakistan, Turkey, the Philippines, and Greece.

SENATOR HARKIN: How much do you plan to spend over the next five years? Over the next ten years?

LTG BROWN: It is not possible to forecast long term expenditures with certainty. Too many variables exist that cause the war to continue and make our support of the democratic government of El Salvador necessary:

- How long will the Soviets, Nicaraguans and Cubans keep supplying the FMLN?
- Will Nicaragua honor its promises to democratize made to its neighbors in the Tesoro Beach Accords?

Until the conditions causing the threat to democratic government, and, therefore, our support to El Salvador change, we will have to continue to dedicate resources to this responsibility.

SENATOR HARKIN: How have actual appropriations for El Salvador since 1984 matched with Kissinger Commission recommendations?

LTG BROWN: The Kissinger report did not make specific country funding recommendations. We will defer to the information that you have requested from the State department concerning Central American regional funding.

SENATOR HARKIN: General Brown, I am quoting here from February 1 testimony of General Fred Woerner, Commander-in-Chief of the U.S. Southern Command, regarding the U.S. military aid program for El Salvador:

> "A study which my headquarters recently completed with assistance from key U.S. government agencies involved in El Salvador, and the Salvadoran Armed Forces leadership, recommended the country receive $97.5 million a year just to sustain the military strategy at current levels."

General Woerner goes on to say: Their needs will significantly increase in the next in the next few years, since their equipment is aging and receiving heavy use." Could you provide the committee a copy of that study?

LTG BROWN: A copy of that study is being obtained and it will be provided to the committee as soon as it is available.

SENATOR HARKIN: What is the current military strategy of the Salvadoran Armed Forces?

LTG BROWN: The national security strategy of El Salvador has a military component, which is carried out by the armed forces. The military does not have its own strategy independent of the government.

The overall national security objective of El Salvador is national survival. El Salvador's national security strategy consists of mutually reinforcing political, economic, and military components. The political components seeks to keep democracy alive and sustain the political and economic support in this effort. The military component seeks to protect the democratic government and process by defeating the FMLN's insurgency and terrorism while gaining and sustaining the support of the Salvadoran people.

SENATOR HARKIN: How does the $97.5 million break down? How much is for arms and ammunition, other supplies? How much is to repair aging aircraft--A-37's and Huey?

LTG BROWN: I need to clarify that the SOUTHCOM study referred to by Senator Harkin identified a total annual military requirement of $125.0 million per year for El Salvador. The level of $97.5 million is only for sustainment of current operations. This would include all equipment maintenance and spare parts, procurement of all expendable supplies including medical supplies and rations, fuel, ammunition and training. The replacement of combat equipment losses, equipment modernization, and infrastructure improvements would be above the $97.5 million funding level. A summary of the funding recommendation resulting from the SOUTHCOM study is provided below.

SOUTHCOM STUDY (MAR 1988)

SUSTAINMENT			$ 97.390 M
Helicopter Maintenance and Spares	10.090		
Fixed Wing Maintenance and Spares	5.980		
Ground Equipment Maintenance/Spares	14.250		
Navy Spares	.300		
Boot/Uniform/Battery Raw Materials	7.470		
Rations		5.000	
Medical Supplies	15.200		
Ammunition	18.000		
Fuel		8.000	
Training (US Schools and Assistance Teams)	13.100		

EQUIPMENT REPLACEMENT			$ 5.890 M
Small Arms (550 Rifles/Machine Guns)	.370		
Radio Equipment (250 Radios)	.500		
Vehicles (50 Trucks)	1.360		
Night Vision Equipment	.160		
5 UH-1H Helicopters		3.500	
EQUIPMENT MODERNIZATION			$ 13.230 M
UH-1M Helicopter Replacement (2-3)	10.500		
C-47 Modernization		2.730	
INFRASTRUCTURE IMPROVEMENTS/EARTHQUAKE RECONSTRUCTION			8.000
Total			$ 124.510 M

This SOUTHCOM Study indicated that approximately $16.0 million would be required to maintain the Salvadoran aircraft fleet each year. An additional $3.50 million is required to replace combat losses and approximately $13.23 million would be required for at least four years in a row to modernize the gunship and transport fleets.

The information provided above is as of April 1988 when SOUTHCOM conducted its initial briefings on the results of their study.

The USMILGP has recently updated its evaluation of the sustainment requirements and the updated analysis is provided below:

SALVADOR SUSTAINMENT REQUIREMENT (USMILGP Update-May 89)

SUSTAINMENT			$ 97.600 M
Helicopter Maintenance and Spares	10.400		
Fixed Wing Maintenance and Spares	3.700		
Ground Equipment Maintenance/Spares	18.500		
Navy Spares	.500		
Boot/Uniform/Battery Raw Materials	5.900		
Rations		8.800	
Medical Supplies	10.100		
Ammunition	21.300		
Fuel		8.700	
Training (US Schools and Assistance Teams)	9.700		

SENATOR HARKINS: What aircraft and how many are in the Salvadoran Air Force?

LTG BROWN: The current Salvadoran air fleet totals 128 aircraft as indicated on the following table.

Fixed Wing Aircraft		Helicopters	
A-37	9	UH-1H	43 (4 additional under procurement)
O-2A	15	UH-1M	14
T-41A/D	3	LAMA	3
AC-47	5	Allouette	5
C-47	5	MD500	11
C-123K	2	TH300C	6
FOUGA	6		
ARAVA	3		68
DC-6	1		
Merlin	1		
Commander	1		
Ralleye	9		
	60		

SENATOR HARKIN: What aircraft and how many need repairs over the next few years?

LTG BROWN: The maintenance and repair of an air fleet is a continuing process. As noted earlier, the annual operating cost to maintain and conduct routine repairs for the Salvadoran air fleet is estimated at $15.00 million per year. Modernization of the transport and gunship fleets are the two most critical modernization issues for the Salvadoran Air Force. The UH-1M helicopters will become nonsupportable after 1991 as the U.S. Army totally phases these aircraft out of its inventory. Due to its age, the C-47 fleet needs to be equipped with more modern engines and instrumentation to extend their service life. Current plans would call for acquisition of 10 replacement helicopter gunships and modernization of 6 C-47 aircraft. The cost over 4-5 years would be approximately $60.00 million. These modernization plans would be dependent on adequate funds in the future.

SENATOR HARKIN: Mr. Bissell or General Brown, how much of the Salvadoran budget is for military salaries? How much of the overall Salvadoran budget is devoted to the military?

LTG BROWN: The Salvadoran national budget for FY 1988 was $700 million. This is exclusive of any US assistance. The Salvadoran MOD's budget, including the public security forces was $203.5 million or 29 percent of the overall budget. The amount of the MOD budget actually applied to the Salvadoran Armed Forces (ESAF), as opposed to the security forces, was $161.8 million or 23.1 percent of the overall budget. Military salaries (ESAF) accounted for $136 million or 84.5 percent of the ESAF budget and 19.4% of the overall budget.

SENATOR HARKIN: What is the reenlistment rate for the Salvadoran armed forces?

LTG BROWN: As of 1987, the reenlistment rate was 12 percent. We will not have the 1988 information until midsummer.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

SENATOR MIKULSKI: Last year the House Government Operations Committee discovered that $630 million of Foreign Military Sales funds were unaccounted for in DSAA's books. Part of the problem is that each service has its own accounting system.

SENATOR MIKULSKI: The Hamilton task force on foreign aid reform recommends that DOD adopt a centralized accounting system. Do you agree that we need a unified accounting system? Why does each service use a distinct accounting system?

GENERAL BROWN: Yes, we are in complete agreement that a unified (centralized) accounting system is needed for the FMS program. This is evidenced by the fact that DoD established a centralized accounting system for FMS as far back as 1977. While that system would not meet today's accounting standards and may have had other shortcomings, it was recognized in the middle 1970s that the growing volume of sales dictated the need for a central accounting system. Each service must have financial and logistical systems to support its unique mission. Monthly, the service systems report detail transactions to the central accounting system so that financial and management reports can be prepared and purchasers can be billed. In effect, we have one centralized accounting and billing system that receives monthly input from the service "feeder" systems.

SENATOR MIKULSKI: How much has the Department spent to date in developing a new FMS accounting system? How much money is still unaccounted for?

GENERAL BROWN: The Department spent just over $20 million of FMS Admin Funds on the FABS central accounting project that was terminated last year. To date, we have spent less than one million on the new system (SACAS), but it too will be expensive. The unreconciled (unaccounted for) balance as of the end of January 1989 was $143.6 million. That's a remarkable improvement over the $613 million that was reported about two years earlier.

SENATOR MIKULSKI: The House Government Operations report states: "The committee doubts the commitment of top DoD officials to install an adequate FMS accounting system." How do you respond?

GENERAL BROWN: I rather suspect the writer of that report believes that the terminated system (FABS) is evidence that the DoD does not have the proper commitment to installing an adequate accounting system. From DoD's point of view that makes neither good logic nor good business. We have a great interest in developing a sound accounting system that will enable us to better manage the FMS program. To have a development project terminate after investing significant resources is not something any DoD manager looks forward to. To get at the real issue you have to look a bit deeper. The real problem, very candidly, was the fact that in trying to be responsive to the Congress, the Department committed itself to an unrealistic project schedule, one that had very little chance of success. Then when the termination occurred, it was seen by some as a lack of commitment. Hopefully, when the plan for the new system is ready, the Congress will accept the project schedule as being in the best interest of developing a successful central accounting system.

MONITORING OF EQUIPMENT

SENATOR MIKULSKI: The Hamilton report on foreign aid reform faulted our Military Advisory Groups in foreign countries for not monitoring what becomes of our equipment after it arrives. As a result, too much of our equipment has ended up in third countries. What is being done to correct this situation?

LTG BROWN: The issue of unauthorized third party transfers of military equipment is of concern to both the Department of Defense and the State Department. While one unauthorized transfer is too many we have no evidence of any significant numbers of such transfers over the years when one considers the total number of dollars and quantities of equipment that are involved on a worldwide basis.

We primarily rely on the U.S. intelligence community and U.S. companies to detect illegal or unauthorized third country transfers. However, one of the current inhibitors on our capability to monitor the use and transfer of equipment is the limitation in Section 515 of the Foreign Assistance Act of 1961 on the number of personnel that can be assigned to our security assistance offices. Personnel assigned to our security assistance offices are well aware of their requirement to monitor such transfers, but in addition to that duty they are also required to manage current equipment, services and training programs; evaluate and plan future requirements with host country; and provide necessary administrative and liaison support.

We agree with the Hamilton report that the establishment of appropriate sanctions for those countries knowingly making illicit third country transfers would act as a deterrent. We would support the establishment of such sanctions and a revision to the limits on personnel that can be assigned to our security assistance offices. However, in the final analysis the success or failure of our efforts to eliminate third country transfers depends upon the understanding and cooperation of the original recipients of our assistance and our intelligence community.

SHIFTING SECURITY ASSISTANCE TO THE DOD BUDGET

SENATOR MIKULSKI: One of the foreign aid reform ideas being discussed is shifting the military assistance programs to the DOD budget. What are your reactions?

LTG BROWN: This is an issue that has surfaced several times in the 1980s and never implemented. The two benefits usually connected with it are (1) the opportunity to more closely correlate military assistance with the national defense budget and (2) the potential to allocate greater resources to the military assistance program.

On the negative side the transfer of military assistance to the DOD budget could be counterproductive to management of U.S. foreign policy for a several reasons. First, military assistance is a means to implement foreign policy.

Second, if military assistance was moved to the DOD budget, Congressional oversight would likely be shared by two sets of authorizing committees, Foreign Affairs and Armed Services, plus the normal Appropriations Committees. Such sequential referral would be cumbersome, impede needed legislation, and leave the program vulnerable to a greater degree of political manipulation.

Finally, base rights renegotiations could possibly be made more difficult by the increased expectations of countries hosting U.S. facilities. Officials in base rights/access countries could easily associate the larger DOD resource base with increased security assistance levels, raising false expectations about potential funding increases. This friction would be especially intense in the current atmosphere of declining defense budgets.

In conclusion, the military assistance program has functioned well with the State Department providing policy oversight and DOD responsible for program development and execution. However, recent Congressional cuts and earmarks to the military assistance budget have harmed U.S. foreign policy and national security.

COORDINATION OF VARIOUS FOREIGN AID PROGRAMS

SENATOR MIKULSKI: The Hamilton report on foreign aid reform states: 'At present, the military assistance program is not adequately coordinated with other aspects of U.S. policy towards recipient countries. U.S. embassies and military advisory groups do not coordinate. The Departments of Defense, State, and AID do not formulate a comprehensive coordinated strategy that integrates economic and military assistance.' Please respond.

LTG BROWN: Within the umbrella term foreign assistance is a diverse group of economic, military, and other types of aid. Given this mosaic of programs, I believe the various elements are adequately coordinated to eliminate overlap and prevent conflict of objectives. Here are a few of the facts concerning how these programs are presently coordinated.

The centerpiece of security assistance planning input from field elements is the Annual Integrated Assessment of Security Assistance, or AIASA. This document is prepared annually by U.S. military representatives and other members of the U.S. country team in the host countries and is cabled directly to State and DOD. The AIASA contains information on purely military programs such as Foreign Military Sales Financing (FMSF) and International Military Education and Training (IMET) as well as the Economic Support Fund (ESF). At the other end of the planning process, when the President's budget is presented to Congress in the Congressional Presentation Document (CPD), all these programs are included within the CPD.

The 150 account is divided into five major subaccounts and a total of about 100 funded programs. Throughout the budget request and allocation phases, the 150 account is continually being evaluated by State Department and DOD analysts to maintain the optimum mix of funding for each activity. This almost daily interplay provides a discipline that ensures money is channeled to the most important priorities.

QUESTIONS SUBMITTED BY SENATOR KASTEN

BRITISH ARMS SALES

SENATOR KASTEN: It is my understanding that during her recent visit to Morocco, British Prime Minister Margaret Thatcher discussed the country's possible purchase of Challenger II tanks and armored personnel carriers. Would the British tanks supplement or replace the M48A5 tanks the Moroccans arranged to purchase from the United States in 1987?

LTG Brown: Morocco purchased 100 M48A5 tanks in 1987. All but four have been delivered. These will be delivered in the near future. While the purchase of Challenger II tanks by Morocco is rumored to have been discussed during Prime Minister Thatcher's recent visit, we do not believe Morocco can afford them. However, should they decide to procure the Challenger II tank, it would supplement the M48A5 tanks already in their inventory.

"BUY AMERICA" ACT AND THE HOUSE REWRITE OF THE FOREIGN ASSISTANCE ACT

SENATOR KASTEN: What would be the consequences for the FMS program of "buy America" laws governing FMS transactions?

LTG BROWN: The Buy America (41 USC 10a-d) applies to procurement of items for public use by the U.S. government within the United States. The Act does not apply to procurement authorized under the Foreign Assistance Act of 1961, as amended, or Arms Export Control Act of 1976, as amended, for use outside the United States by foreign governments.

POSSIBLE MOROCCAN ARMS SALES

SENATOR KASTEN: I understand that Morocco may be interested in buying up to 24 General Dynamics F-16s along with 100 Maverick and 100 Sidewinder missiles. Yet, Morocco currently is struggling to pay off an $18 billion foreign debt, a problem that will be made more difficult if the administration succeeds in cutting $12 million in FMS and $5 million in ESF funding from the country's FY 1990 foreign assistance package. In light of the proposed administration aid cuts to Morocco, how are you proposing the country pay for a modernization of its forces?

LTG Brown: DoD is willing to sell the F-16 aircraft to Morocco. We are ready to proceed when they resolve how to fund the purchase.

SPECIAL DEFENSE ACQUISITION FUND

SENATOR KASTEN: Can SDAF lease as well as sell defense articles?

LTG BROWN: AECA Chapter 5 which established the SDAF does not authorize the lease of SDAF assets to a foreign country.

SENATOR KASTEN: If not, what legislative authority would be required to make this possible? Would you support such an initiative?

LTG BROWN: Since it is a revolving fund, the concept of leasing any of its assets would degrade the sound operation and financial management of the SDAF by siphoning off funds needed to sustain procurements and usefulness of SDAF to protect U.S. defense force readiness against diversions for security assistance purposes. We do not support a SDAF leasing concept.

COMMERCIAL LEASING OF DEFENSE ARTICLES

SENATOR KASTEN: We need to stretch foreign military sales resources. One way to do this is through the leasing of defense articles. If current statutory limitations on leasing were expanded to include items other than helicopters, as well as government-to-government leasing, will you support this as the administration did last year?

LTG BROWN: The Administration did not oppose the legislation, Section 580 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1989 (P.L. 100-461), which provided authority only for Israel and Egypt and major non-NATO allies as well as NATO countries. This section states that FMS financing may be used for procurement by leasing (including leasing with an option to purchase) of defense articles from United States commercial suppliers. This provision does not apply to MDE equipment other than helicopters and other types of aircraft having possible civilian application. Extension of this authority to MDE equipment would have limited practical effect since commercial firms would have little incentive to hold on to military defense items for future need so there is generally little basis for leasing.

As concerns government-to-government leasing authority under Chapter 6 of the Arms Export Control Act, the Administration already has sufficient authority to lease military defense items. The necessity to stretch resources more properly applies to other countries that have even less resources to purchase defense material. In this instance, the Department of Defense could be given broader authority to provide these countries with defense materials on a no-rent basis.

EGYPT AND CHEMICAL WEAPONS

SENATOR KASTEN: There have been recent press reports that Egypt may be assembling a plant for the manufacture of chemical weapons agents. Egypt has denied the allegation. Do you have any evidence that Egypt intends to manufacture chemical weapons and can you assure this committee that no United States funds or technology is being applied toward chemical weapons or ballistic missile production?

LTG BROWN: Officials at the highest levels of the Government of Egypt, including President Mubarak, have denied that Egypt is attempting to establish a chemical weapons production facility. We have no reason to question these denials.

To our knowledge, no U.S. funding or technology is being used by Egypt in the areas of chemical weapons and ballistic missile production.

SECURITY ASSISTANCE: FMS DEBT REFORM

SENATOR KASTEN: One of the countries which Senator Inouye and I had in mind as potentially one of the primary users of FMS debt refinancing is Egypt. I understand that Egypt has not made use of the program so far, and I wonder whether you have any knowledge of whether they will do so in the near future?

LTG BROWN: We have no sure knowledge of Egypt's plans with regard to refinancing. We believe that whether or not it can reach agreement in its discussions with the IMF and whether or not it is able to return to the Paris Club will greatly influence its decision-making vis-a-vis refinancing, (see also answer for the record to a similar question from Senator Inouye).

QUESTIONS SUBMITTED BY SENATOR D'AMATO

RESPONSE TO FOLLOWUP ON MEDICAL CARE FOR COLOMBIA

SENATOR D'AMATO: What priority have you assigned to providing aid to the Colombian armed forces to help them fight the cartel?

FOLLOWUP: I note that you've asked for $20 million to support the foreign military sales program for Colombia. In your report to Congress, you state that this financing program ". . . will provide much needed spare parts for helicopters, vehicles and weapons as well as ammunition, individual equipment, medical evacuation capability and medical training." Someone familiar with the situation in Colombia informed me that a Colombian soldier, when wounded in battle with guerillas or drug traffickers, could expect to receive the level of medical care our soldiers received during the civil war. Will the proposed aid program correct this?

LTG BROWN: The proposed FY90 MAP program will partially correct this. One of the priority recommendations which arose from the joint Colombian/U.S. survey of the Colombian military conducted in March 1988 was the need to improve medical evacuation and treatment for the colombian armed forces. This is a large problem, which both we and the Colombians have been working in a structured, incremental way. Colombia intends to use a portion of funds in the FY89 MAP program, as well as a portion of funds from exim loan guarantee (made possible by the provisions of the Anti-Drug Abuse Act of 1988), to configure some UH-1H helicopters with medical evacuation capability. These funds would also be used to train in-flight medical attendants and procure a limited amount of field first aid kits. A portion of the funds from the FY90 program will be spent for additional medical training and equipment. Increasing the quality of medical care is a joint priority.

RESPONSE TO FOLLOWUP ON FOREIGN MILITARY SALES FOR PERU

SENATOR D'AMATO: "You've requested only $5M in foreign military sales funds for Peru. Do you believe this is an adequate response to the problem?

LTG BROWN: The answer is no, but in view of both the restricted amount of non-earmarked funds available for countries such as Peru and also considering the substantial arrearages owed by Peru to the U.S. which have placed that country under Brooke Sanctions, I believe it is a prudent amount.

As you are aware, the Sendero Luminoso Insurgency operates in the same upper Huallaga Valley which is the predominant growing area for coca. The Sendero Luminoso forces have recently undertaken terrorist attacks against Peruvian police and military forces in the upper Huallaga Valley. These same Peruvian military and police forces were in the upper Huallaga Valley to provide security to Peruvian and U.S. personnel performing coca eradication. This is part of an increasing pattern where insurgent groups within the Andean countries are undertaking supportive action for the narcotics trade. In the case of Peru, however, an increase in foreign military sales funds would be unwise unless there were commensurate reductions in earmarked levels for other nations. With Peru's current economic plight, I believe that even increased levels of foreign military sales funding for Peru could not be used, unless application of Brooke Sanctions was also waived.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will now stand in recess until 10 a.m., Thursday, April 6.

[Whereupon, at 3:21 p.m., Thursday, April 4, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 6.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, APRIL 6, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:39 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Harkin, Kasten, and D'Amato.

AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR ASIA AND THE NEAR EAST

STATEMENT OF DR. CAROL C. ADELMAN, ASSISTANT ADMINISTRATOR

DEPARTMENT OF STATE

BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS

STATEMENT OF DAVID F. LAMBERTSON, DEPUTY ASSISTANT SECRETARY OF STATE

OPENING REMARKS OF SENATOR PATRICK LEAHY

Senator LEAHY. Good morning. Today we have David Lambertson, the Deputy Assistant Secretary of State for East Asian and Pacific Affairs, and Dr. Carol Adelman, the Assistant Administrator of the Agency for International Development for Asia and Near East.

The hearing will focus on the administration's foreign operations budget request for East Asia and the Philippines.

Recently, we have seen the economic transformation of Japan, Taiwan, and Korea. They are competing hard with us economically. In fact, this year Japan surpassed us as the world's largest aid donor.

We will look at countries in that region which have not fared as well, particularly, of course, the Philippines. We will also look at Thailand, a country that has made great progress, and Indonesia, Bangladesh, India, and Cambodia.

Of the $1 billion the administration is requesting for these six countries for fiscal year 1990, more than one-half—$650 million—is for the Philippines, a $170 million increase over fiscal year 1989;

$200 million is for our contribution to a new multilateral assistance initiative.

The proposal explaining this initiative is a little short on specifics. Therefore, I would like to hear about some of those specifics and how the funds will be used, and about the role of the Japanese and other donors. Also, of course, exactly how we are going to pay for this.

There has been a $75 million increase requested in military aid for the Philippines. We are trying to strengthen that civilian government, and I want to know how this is consistent with the emphasis on funding the military.

You propose a $25 million increase for Thailand, a country that is certainly on an economic upswing. But Bangladesh, an impoverished country facing virtually every problem imaginable, has a proposal for a cut of almost $30 million. I want to know whether we are cutting Bangladesh to pay for Thailand.

I want to hear your ideas about what we and the Japanese can do to help Cambodia if the Vietnamese withdraw and there is a settlement.

One-half of the world's population lives in China, India, and Indonesia. Are we doing anything to help them control their populations. If so, what?

We have been told about the destruction of forests in the Philippines and Indonesia. Can we be helpful there?

I cannot think of an area that has more challenges. I cannot think of an area that also has more opportunities if we do it right.

So, I would yield to Senator D'Amato if he has anything he would care to say.

Al.

OPENING REMARKS OF SENATOR ALFONSE D'AMATO

Senator D'AMATO. Thank you, Mr. Chairman.

I want to welcome Mr. Lambertson and Dr. Adelman. I look forward to working with both of you.

In the last decade, we have been witness to the greatest peaceful shift in the balance of power in East Asia in this, or perhaps any century. I underline the words "peaceful shift." Our friends in the region have done well.

Japan has risen from ashes of militarism and the disastrous war it spawned to rejoin the civilized community of nations as a welcome partner. Her wealth and industry are the envy of the world.

South Korea, to the amazement of all, has made huge strides in the direction of democracy. Her economic development continues apace.

China, the rock upon which Asia is grounded, continues to infuse capitalist mechanisms in her once stagnant economy with happy results. Relations between us improve daily.

These successes aside, East Asia continues to offer some of the greatest diplomatic challenges we face.

The Soviet military presence in the region has ballooned alarmingly. The Soviet Pacific Ocean Fleet is the largest of the four Soviet fleets. Air and ground forces in the Soviet Far East military district, field the latest equipment. We should not be lulled by the soothing rhetoric coming out of Moscow.

Trade disputes have had an extremely corrosive effect on relations. Shrill threats on this side of the Pacific are matched by obstructionism and resentment on the other. We must strive to open markets whenever and wherever possible, to resolve disagreements without resorting to bashing, and accept the fact that a certain amount of protectionism on each side is wise both politically and strategically.

The appearance of paralysis in the Philippines is also worrisome. Admittedly, this is a nation faced with almost overwhelming development needs. If the Communist insurgency Mrs. Aquino faces is not to gain an even greater foothold, however, the pace and extent of economic growth must increase soon

I look forward to the testimony from our two witnesses.

I have spoken to the Secretary on a matter that is not related directly to the purpose of this hearing, and I am going to ask, before he leaves, that one of my staff give him a formal request concerning three people who are seeking to come in under the auspices of the International Brotherhood of Teamsters Local 840, for a tour of the United States, starting April 22, through May 5.

Obviously, if you are going to come in from China and you are talking about a tour that is going to begin here on April 22, time is really of the essence.

I was somewhat upset by the turndown that we received 2 days ago. We were told that in order to get any information as to why our request was turned down, we would have to make a formal request by letter.

We are making it on the record. We are going to give you a letter.

Mr. LAMBERTSON. I would be happy to look into it.

Senator D'AMATO. We would like to know who, how, and why. If it is some kind of general jump over the hurdle, well, then, let's jump over the hurdle or knock it down. It is absolutely unacceptable that these people be turned down for these purposes, as far as I am concerned.

I would very much appreciate your help on the part of these people, and I want to thank you.

Mr. Chairman, thank you.

Senator LEAHY. Thank you.

Secretary Lambertson, we will start with you.

Mr. LAMBERTSON. Mr. Chairman, if I may, I would like to defer to Dr. Adelman, whose portfolio is broader than mine, and then I would present my statement second, if that is all right.

Senator LEAHY. Very well. Thank you.

Dr. Adelman, we would be happy to have you go forward.

Your full statement, of course, will be in the record. But you may want to emphasize some of the areas that I was discussing earlier.

SUMMARY STATEMENT OF DR. CAROL C. ADELMAN

Dr. ADELMAN. Thank you, Mr. Chairman, distinguished members. I am especially pleased to be here, because of the dynamic nature of East Asia. It makes this region exciting to me and to foreign aid development specialists in general. East Asian countries demonstrate the importance of economic growth led by the private sector. We think this is the surest way to reduce poverty and create development, not dependency.

President Bush and Ambassador Woods have a shared vision about development. They believe that the most powerful engine of development is indeed the private sector and the entrepreneur, both large and small. What is exciting about these countries is that they exhibit entrepreneurship to its fullest.

A quote that I think about a lot is one from Sir Arthur Lewis, who wrote back in the 1950's that the advantage of economic growth, which is Ambassador Woods' thrust and priority in AID, is not that wealth increases happiness, but that it expands the range of human choice. It gives people greater control over their environments; it gives people greater freedom.

This freedom of choice is indeed to me what economic growth is all about—not economic growth for its own sake, not private sector for its own sake. That is not what we are saying. We are saying economic growth leads to a greater vision and choice.

To me, there are two components of freedom of choice that we are supporting in AID and that the countries of East Asia are supporting as well, at various stages.

The two components are open markets on one hand, and open societies on the other.

Open markets, lead to the proliferation of trade, investment, and jobs; letting people choose what they consume, what they produce, where they work.

No one chooses to be poor. Poor people are poor because they have no choices and opportunity.

The important corollary to our approach in AID is open societies, freedom of election, speech, religion, and press. These lead to the proliferation of PVO's, womens' groups, civic action groups, trade unions, cooperatives, all of the famous thousand points of light, which provide the institutional framework or, if you will, the rules of the road that help open markets survive.

[The statement follows:]

STATEMENT OF DR. CAROL C. ADELMAN

Mr. Chairman and Members, it is an honor to appear before you today to present our proposed 1990 program for East Asia and the South Pacific. I would first like to discuss regional economic and program trends, then highlight our proposed country programs, and conclude with a few remarks on a major new foreign policy initiative for the Philippines--one which the President considers to be of singular importance.

Major Regional Economic Trends

East Asia continues to be the most economically dynamic region of the world. In 1988, Gross Domestic Product for the region was projected to grow at 6.8 percent, well above that for all developing countries or, for that matter, the industrialized countries. While the region's countries vary significantly as to culture, natural endowments, and economic systems, their growth is marked by two common characteristics: economic stability and the acceptance of market-oriented solutions.

Economic stability in East Asia is the result of prudent macroeconomic management. Inflation rates have been kept low and Government deficits maintained at acceptable levels. In addition, external debt has generally been held to manageable levels, although the Philippines and Indonesia continue to experience excessive debt levels. The figures show, with few exceptions, a sustained capacity to anticipate and avoid the serious economic imbalances that have disrupted growth and development elsewhere in the world. A relative latecomer, the Philippines appears over the past 18 months to have joined its neighbors with new, increased sophistication and success in the management of its economy.

The second common characteristic in East Asia is the widespread acceptance of market-oriented solutions. The most successful countries are carrying out significant structural reform of their economies aimed at improving internal efficiency. Such reform includes the elimination of excessive or inappropriate government intervention and the institution of policies which provide proper incentives to allow markets to function. These include realistic exchange rates, liberalized trade regimes, and deregulated private activities. Reforms are moving into traditional areas such as health and education, in which new methods of private sector financing are being explored. This important look at private sector financing will help shift costs from the overburdened public sector to private revenue streams, allowing us to free up public resources for the truly needy. The result is that East Asia seems to be going through its own industrial revolution.

Success is having a powerful impact in the region. Countries long wedded to socialist principles are beginning to reform their economies, looking to their neighbors for successful market models and even to Western development agencies for advice.

However, the relatively good growth performance of the countries in East Asia, over the past two decades, 2.0 percent above comparable nations throughout the world, and their basic strengths in economic management and structural reform, should not detract from the massive social and economic problems they still confront. For example, sustained economic growth in two strategically important nations, the Philippines and Indonesia, is not yet assured. These are still poor countries. Indonesia has a per capita income of $500 and the Philippines $570, compared to Malaysia, with a per capita income of $1,850, Singapore's $7,410, and the U.S. with a per capita income of over $18,000. The averages for Indonesia and the Philippines mask pockets of absolute poverty which continue in both rural and urban areas.

In addition, countries in East Asia face a number of trends that offer opportunities as well as challenges to their capacity for sustained growth.

For example, growth in agricultural production, a major component in income and employment growth, has slowed to below population growth. There is concern that the intensive agricultural production systems, which were eagerly adopted by small farmers throughout East Asia during the Green Revolution, may not be ecologically sustainable. So, additional efforts are required in developing low input technologies, soil and water conservation, and ecologically sound management practices. At the same time food consumption patterns are changing with growing demand for higher value added food products. This means more attention will be given to expanding investments and job opportunities in such areas as agribusiness, agricultural processing and rural and urban manufacturing.

Changes are also occuring in the demographics of the region. Although fertility rates have dropped significantly, contributing to lower population growth rates, past high rates of population growth guarantee high rates of labor force growth over the next twenty years. Not only will population continue to grow, but the working-age share of the population will rise sharply, especially in East Asia. This important demographic trend underlines the pressing need for Asian countries to generate rapid growth in renumerative employment opportunities. This demographic trend also has implications for the financing of social services. Because maturing populations have costlier health care needs, we are exploring the use of insurance and HMO schemes involving the private sector. In education, we are seeking new means of private sector financing to reduce the cost to the already burdened public sector.

We are also seeing major changes in the urban areas. As more people enter the workforce, many are moving into small towns, as well as major cities. As agriculture's relative contribution to employment and GDP continues to decline, we will see an increase in the number of people seeking non-agricultural, urban employment.

All together, these trends in the age structure and the location of populations point to a pressing need for growth in off-farm employment. Only economic expansion will generate the savings and investment needed to create these jobs. The task of managing and achieving such expansion will be complex and demanding, implying a need for increased reliance on market mechanisms, effective institutions, and sound economic policies.

One of the most encouraging trends in the region, and one related closely to satisfactory rates of growth and more open economies, is the quickening pace of democratization and pluralism. Institutions such as free elections, property rights and free markets are vital safeguards of basic human rights and human liberty. At the same time, these institutions provide a framework for and help sustain the economic growth necessary for broad-based development.

As we move into the 1990s and beyond, we at A.I.D. will continue to pursue projects which emphasize the essential relationship between political pluralism and development. We believe it is the most direct path to improving the quality of life for the millions of poor people living in East Asia.

Foreign aid is not a luxury in East Asia, even in a period of tight U.S. budgets. It is rather an investment in U.S. strategic and economic security. The region's population is large. More than one-third of the entire international commerce of the U.S. is with East Asia and is growing. The markets of East Asia will be increasingly important if we as a nation are to seriously address our trade deficit. The countries have asked for our help. The U.S. is no longer dominant in the region but must work in concert with friends and allies. The aid is not being wasted. The trends are in the right direction and the probability of success, high.

Regional Program Trends

A.I.D. programs in the region are changing. They are increasingly structured to produce economic benefits for both the United States and the cooperating country. A.I.D. will continue to assist countries to strengthen and deepen their unfinished agendas of structural reform aimed at encouraging market-oriented economies. Trade and investment is a major new focus in East Asia, further reenforcing the development of market-oriented economies. Science and technology programs offer prospects for collaboration on pressing problems and will create new outlets for U.S. technologies and scientific products. Strengthened emphasis will be given to development of the private sector, both indigenous and foreign, through a newly established ANE Bureau Private Sector Office.

The developing countries of Asia will also benefit from expanded collaboration between A.I.D. and Japanese assistance programs. A.I.D. is already working with the Japanese, notably on the Philippines Multilateral Assistance Initiative, as well as on specific assistance activities in Indonesia and the South Pacific.

A.I.D. is developing a new strategy and identifying new methods of delivering assistance, based on Thai and U.S. mutual interests. This may serve as a model for other nations at a similar stage of development. Thailand is approaching Advanced Developing Country status. Its institutions, policies, and human resources are relatively sophisticated. The basic systems required for equitable growth, primary education, basic agriculture and community health and family planning services are generally accessible to urban and rural populations. Food production now exceeds population growth, generating a surplus upon which a more diversified economy can be built. The political and social stability necessary for continued growth has been achieved. Thailand, however, faces additional structural adjustments and must address looming constraints on its ability to sustain high growth rates. These include adapting institutions to manage new areas of technology development, urbanization, management and skills training and conservation of the environment, and electrical power generation.

Country Programs

PHILIPPINES -- $55 million in DA, $160 million in ESF, $41 million in PL 480, and $25 million in Housing Guaranty Authority are planned to continue support for the democratic and economic recovery of the Philippines. This will also meet the first half of the President's two-year best efforts pledge made in conjunction with the 1988 review of the Military Bases Agreement. Our current program is focused in four main areas: establishment of a strong economy with an emphasis on rural investment and labor-intensive enterprises; sustained diversification and increased profitability in agriculture and rural non-farm enterprises; increased coverage and effectiveness of basic social services; and improved management of natural resources, particularly tropical forests and coastal waters. In addition, $200 million is requested for the Multilateral Assistance Initiative (MAI), the major new foreign policy initiative which I will discuss following this summary of country programs.

INDONESIA -- $43 million in DA and $15 million in PL 480 are requested to help Indonesia restructure and diversify its economy while addressing poverty and unemployment. Priority will go to private sector-oriented policy reforms and foreign investment, streamlining and privatizing social services, and creating jobs, particularly in rural areas. It also emphasizes environmental and natural resource conservation, including protection of some of the most diverse tropical forests in the world.

THAILAND -- $14.5 million DA and $5 million ESF are requested for the Thailand program. As I have mentioned, the program is in transition as Thailand approaches Advanced Developing Country status. Three major program foci are emerging in this transition: science and technology, including strengthening R&D capacity and linkages with the private sector; natural resources and environmental management; and a trade and investment thrust that will help Thailand diversify markets and investment sources, while encouraging greater U.S. and Thai private sector cooperation in development. The ESF funds support Thai villages affected by warfare on Thailand's borders with Laos and Cambodia, and by the influx of refugees.

SOUTH PACIFIC -- $6.5 million in DA and $11.2 million in ESF are requested for the South Pacific regional program, as well as $1 million in commodity assistance for FIJI. The program will increase incomes derived from agriculture and marine resources development. A strong emphasis will be placed on the private sector, as well as on addressing serious problems in the health and population sectors. Most of the ESF is provided as part of the Regional Fisheries Treaty, which grants U.S. industry access to valuable South Pacific tuna resources. The ESF proposed for Fiji will be used in such a way so as to benefit all communities of the island nation.

NON-COMMUNIST CAMBODIAN RESISTANCE (NCR) -- $7 million is requested for nonlethal assistance to strengthen the effectiveness of the NCR forces. Funds go for health training, medical supplies and equipment, and training in areas such as basic mechanics, public administration, and agriculture.

ASEAN -- $3.3 million is requested for the regional program of assistance to the Association of Southeast Asian Nations, including Philippines, Thailand, Malaysia, Singapore, Brunei, and Indonesia. Enhancement of regional cooperation and sustainable economic growth are our objectives here. The ASEAN program is also shifting to an Advanced Developing Country focus, with emphases on increasing U.S. and ASEAN private sector trade and investment opportunities, environmental management of coastal resources, and energy conservation and management with an emphasis on commercial application of new technologies.

BURMA -- No funds are requested for Burma at this time; the program was suspended following the September 1988 military takeover. We would consider resuming assistance with the advent of free elections, and a serious attempt by the Government to undertake fundamental economic reforms.

A Foreign Policy Initiative for the Philippines

I would now like to turn to the Administration's request for a special appropriation to support the Multilateral Assistance Initiative (MAI) to promote democracy and sustained, broadly based growth in the Philippines. The achievements of the Filipino people since 1986 have been significant. A new constitution has been written and endorsed by the people. A new Congress has been created through free and open national elections, followed by local elections for provincial, municipal and village governments. These political achievements have been matched by equally significant economic advances. From declining GNP during the final years of Marcos, the Aquino administration has presided over an economic recovery with 5.9 percent growth in 1987 and 6.7 percent in 1988. At the same time, inflation has been held below 10 percent and the balance of payments situation has remained manageable. Between 1986 and 1988, investment increased by 73 percent, while consumption rose by 12.5 percent.

These economic achievements have not been accidental. Shortly after coming to power, the Aquino administration launched an impressive economic reform program. The objective of this program is to transform an inward-looking, highly regulated and overly protected economy into a outward-looking, dynamic, and competitive one which can generate employment and provide greater opportunity for the Filipino people.

Despite these achievements, much more needs to be done to assure that the democratic process can survive and flourish.

Poverty continues to be pervasive in the Philippines:

-- Between 50 and 60 percent of all Filipinos live below the poverty line.

-- Unemployment and underemployment account for nearly 40 percent of the total labor force. With an additional 750,000 new entrants each year, the government faces a formidable challenge in promoting employment and breaking the cycle of poverty.

-- An inadequate infrastructure, particularly in rural areas, is a major constraint to the development of the private sector and the generation of employment opportunities. The basic infrastructure of the Philippines has seriously deteriorated over the past decade.

-- Along with the physical infrastructure, there has been a significant deterioration of the social infrastructure. Rapid population growth is clearly outstripping the country's natural resource base and ability to provide employment. The Philippines education system, which once helped create a literate population, has not kept pace with the growing population and is now suffering from reduced investments and declining standards. Health care is deficient throughout the country. Substantial pockets of malnutrition exist, and it is estimated that over half the children under six suffer from some kind of malnutrition.

The survival of the democratic process in the Philippines to a large extent depends on the ability of the Aquino administration to respond to these needs. It must clearly and unmistakably demonstrate that democracy can yield improved living conditions and expanded opportunities. Yet the Government of the Philippines has limited resources to respond to these needs. World Bank projections indicate that the levels of assistance achieved during 1987 and 1988 will not sustain growth at rates approaching 6 percent over the 1990-94 period. Indeed, this rate of growth could require about $2 billion per year, over and above the assistance levels achieved during the past two years. Anticipated further increases in foreign assistance -- about $420 million per year -- could fill some of that gap. However, that still leaves about $1.6 billion per year as a financing requirement if growth targets are to be met.

The Multilateral Assistance Initiative (MAI)

Over the past year the Administration has been consulting with our friends and allies, with key international financial institutions and with the Government of the Philippines on how best to respond to the challenges and opportunities we face in the Philippines. We are not just seeking to mobilize international assistance, but to mobilize it in a way which will encourage economic policy reforms and stimulate the emergence of the private sector as the primary engine of growth. The MAI is a public-private partnership. If we are successful, private sector resources in the form of investment, export earnings, and commercial lending will dwarf the level of public resources provided. This requires clear definition of objectives and a high degree of coordination between the Government of the Philippines and the donor community.

In January, I met with key officials of the GOP, including the Secretary of Finance and the Secretary of National DEvelopment Planning, as well as elected local government officials, to discuss the Philippines development program. In early February, Administrator Woods had an unusual and highly productive round of consultations in Manila with representatives of the Government of Japan and the Government of the Philippines. He met individually and jointly with key members of the Cabinet and President Aquino. As a result of these consultations, we have reached broad agreement on a number of key points concerning the objectives of the MAI, its overall development strategy and how it will be organized.

Objectives and Strategy. We have agreed that the objective of the MAI is to support the newly re-established democracy in the Philippines by promoting sustained economic growth led by the private sector, and improving living conditions. Continued progress by the Government of the Philippines in the implementation of its economic policy reform program is a central element of the strategy to achieve these objectives. Building on the progress made thus far, the MAI will support the Aquino Administration's efforts to implement its economic reform program in key areas such as deregulation, decentralization, trade reform and liberalization of the investment regime. A second key element of the MAI strategy is the implementation of administrative reforms to improve the capacity of the Philippines to use donor assistance effectively and efficiently. These reforms include accelerated project identification and development, streamlined decision-making, improved monitoring and oversight of project implementation and simplification of procedures. The third element is the rehabilitation and development of the nation's infrastructure, in sectors such as communications, transportation and energy.

Together, these three elements will create the conditions necessary to attract greater private capital flows, strengthen the private sector, generate employment opportunities and improve living conditions. As the implementation of the MAI proceeds and the environment for the private sector continues to improve, we anticipate increased private sector flows into the Philippine economy. Consequently, the need for extraordinary official assistance will gradually decline and ultimately self-sustained, broadly-based growth fueled by the private sector will be established.

Government of the Philippines Economic Program. The first step in the process of implementing the MAI is an overall economic restructuring program which can serve as the basic framework for the MAI. This framework, developed by the Government of the Philippines and drawing on the expertise of the World Bank and IMF, will establish economic targets to be achieved under the MAI, identify specific economic and administrative reform objectives, formulate a timeframe for their implementation, and propose resource requirements. This will provide the framework for coordinated donor assistance and identify priority areas, key reforms and specific objectives. It will be an important management tool for the Government of the Philippines, helping them and the donor community organize assistance. The basic building blocks are already available in the form of the Government of the Philippines' own economic reform program, a draft IMF program now in the final stages of negotiation, a recently completed study of poverty by the World Bank, various World Bank sector studies and a Country Economic Memorandum. We expect that the Philippines framework will be available this spring for review by donors and multilateral institutions.

Management of the MAI

World Bank President Conable recently visited the Philippines and expressed his support for the MAI. He offered to coordinate the implementation of the MAI through an enhanced Consultative Group mechanism. In addition to full Consultative Group meetings, we will be proposing that the World Bank also organize periodic "Mini-Consultative Group" meetings as the need arises to develop and review donor assistance programs in specific sectors. Outside the formal Consultative Group process, we expect to continue our close bilateral consultations with the Government of the Philippines, the Government of Japan and other major bilateral donors, as well as with multilateral institutions. These consultations will help ensure that the MAI is achieving its objectives and that reforms and projects are implemented in a timely fashion.

Commitment and Management of Donor Assistance. President Bush and Prime Minister Takeshita have pledged to try to launch the MAI this year. We are now working with the Government of the Philippines and other donors to develop a reasonable schedule. Assuming a program satisfactory to donors and multilateral institutions has been developed, we would like to see a Consultative Group pledging session by summer or autumn. This would be the occasion for donors to endorse the Philippines program and pledge their support.

The USG Contribution. The Administration is requesting an appropriation of $200 million in FY 1990 as the initial United States Government contribution to the MAI. This is over and above the assistance President Reagan pledged the Executive Branch to seek from the Congress in connection with our Military Bases Agreement review, completed in October, 1988. We believe this amount is consistent with the urgent needs of the Aquino Administration.

Special Legislation. The Administration is proposing that these funds be appropriated as a separate account within the budget, called Special Assistance Initiatives. We are requesting this for several reasons. The United States, other donors and the Government of the Philippines have agreed that this extraordinary assistance effort must be distinct from any security relationship which the United States has with the Philippines. Consequently, security assistance is not appropriate to the multilateral character of the MAI.

In addition, MAI funding needs to be as flexible as possible. Because the burden of responsibility for restructuring the Philippine economy and establishing broadly-based, sustained growth rests with the Government of the Philippines, it is essential that MAI resources be structured to respond to the pace and vigor of the Government in implementing its reform program. Consequently, we are proposing that these funds be made available to the President until expended, thereby providing the Administration with the flexibility to accelerate or delay disbursements in accordance with the achievements and performance of the Government of the Philippines.

The legislation the Administration will be proposing also includes provisions for annual consultations with the Congress. These will include Executive-Congressional Branch consultations on the actions of the Government of the Philippines to implement its reform program in support of the MAI objectives, ongoing financial requirements, the participation of other donors, the effectiveness of mechanisms for donor coordination, and progress made toward the achievement of the objectives of the MAI. Appropriation of subsequent contributions by the United States to the MAI will depend on the assessment of overall progress contained in this annual review.

Uses of USG Contribution. The use of this initial contribution will depend both on the final shape of the Government of the Philippines economic program and continuing discussions with other key donors. We currently expect that some part of our contribution will be budget support and sector programs linked to the implementation of agreed economic and administrative reform programs to achieve sustained growth. The second area would be private sector development, including promoting greater involvement of the U.S. private sector in the development of the Philippines. For example, this could include strengthening financial institutions and developing financial markets, accelerating privatization efforts, helping to establish private venture capital firms, supporting foreign investment promotion and helping to "level the playing field" through supporting activities such as feasibility studies, training programs and perhaps financing terms. The rehabilitation and development of infrastructure will be a third area of support, particularly in areas such as transportation, telecommunications, and power distribution.

The United States has the opportunity to take a leading role in advancing our political and economic interests in the critical East Asia area regionally, and in working with the donor community to support the Aquino Administration in making the difficult transition to a new era. With the continuing bipartisan support of the Congress, the United States can continue to play a critical role in a dynamic and changing region.

Mr. Chairman, I will be happy to answer the Committee's questions.

THE MEANING OF OPEN MARKETS

Senator **Leahy**. The open market is something that we all hope for. The fact is, of course, that we have anything but open markets in many of those areas. I'm not suggesting sending aid to Japan, but there is virtually no major country that has not finessed the idea of requesting open markets for their exports and then closing their markets to imports. We have done very little to break into markets in that area. Trade negotiations with those countries have been characterized by a roll-over-and-play-dead attitude for years. We are now finally beginning to be a little tougher on them, and I'm glad to see it. But there is a long way to go.

But then, with some of these other countries, such as Indonesia, it is good to say that they should have open markets. But when they have so very little to trade with other countries, what does an open market really mean. The same is true with a country such as the Philippines, that is enormously in debt.

But what do you do in Bangladesh? We cut aid there. We increase it in Thailand, where there is improvement. Are we doing a chicken-egg thing here? Are we saying if you improve, if you are really doing a great job, we'll give you money; if you're not, we'll cut it out?

What is the rationale behind the aid policy in these examples?

We can give good speeches, and I agree with everything you are saying. But that may fall on deaf ears if you have a bankrupt nation that is unable to pay for anything anyway.

Dr. **Adelman**. Absolutely.

I think the increase for Thailand is a military aid request. Our AID levels in Thailand are not going up, nor are they going down in Bangladesh. Our level in Thailand is much lower than Bangladesh. We think that certainly reflects the needs of the two countries.

Just one point on open markets. Open markets are two things. The open markets of trade between our country and some East Asian countries, as you correctly point out, have a long way to go. There are tremendous trade barriers. There are things that we need to work on with the U.S. Trade Representatives Office and the Commerce Department here, as we are trying to do overseas as well.

I am talking about open markets within these societies, and policies that liberalize trade, free up government controls, and convert parastatals to the private sector, to make them more efficient, to create more jobs, and to give better incentives to farmers in producing.

Senator **Leahy**. But how do we get them to do that? I mean, we could say that is a very good idea and everybody wants a free market. But there is not a country in the world that has free markets—not ours, not the European markets, not Japan. Nobody has a free market, totally free, by any means.

Some are freer than others. Ours is probably about as free as you can get. The United States and Canada are probably as close to a free market picture as you can get anywhere.

But what incentives do you give these countries? It's wonderful to say this is all for their own good. But the fact is that they are enormously in debt, with no foreign currency to pay for things. What is the incentive?

Dr. **ADELMAN**. Well, I think the incentive, at least the one that we try to promote and help countries understand, is the example of the Asian tigers in that region, who have liberalized, who have done the kinds of things that we are talking about, who have had the growth rates that indeed have reduced poverty.

In fact, we are seeing that data in India, Bangladesh, and Indonesia all show that as their economic growth has been achieved, they have had reductions in poverty.

So we are trying to help countries understand that relationship. They don't need us to tell them that much. They can look around in their own region, and look at Korea and Taiwan to see at least what the basic, successful model is for development.

REDUCTION IN FISCAL YEAR 1990 AID TO BANGLADESH

Senator **LEAHY**. Let me just make sure that I understand the request for aid to Bangladesh. The fiscal year 1989 estimate for development assistance, ESF, Public Law-480, and so on totals $161,792,000.

Dr. **ADELMAN**. Yes.

Senator **LEAHY**. The fiscal year 1990 request is $133 million. I had said it was about a $30 million cut; actually it's about a $28 million cut.

Dr. **ADELMAN**. In Bangladesh, the higher fiscal year 1989 figure reflects additional assistance we provided as part of the flood recovery effort.

Senator **LEAHY**. I see, I used Bangladesh as an example only because I see that aid to Thailand is going up. I'm curious as to why.

Dr. **ADELMAN**. Certainly. We'll get back to you on what that cut in Bangladesh is. I don't know whether it is a cut in food aid or where. It might be a cut because of the disaster before, where we had an influx. But I know we are adding some more funds this year from deobligations of other funds.

[The information follows:]

The actual levels of assistance for Bangladesh for fiscal year 1988 and fiscal year 1989 are $134.9 million and $162.1 million, respectively. The gap of $27.2 million is due strictly to the additional aid we are providing in fiscal year 1989 as part of the flood recovery effort. Most of the increase is in food aid (up $25.2 million in Public Law 480 title III and title II over the fiscal year 1988 level). The project (development assistance) aid level is up only $2 million at this point, although it is likely that further additional project aid in fiscal year 1989 will be made available. As regards fiscal year 1990 the anticipated total assistance level will move back to $134.3 million.

THAILAND

Development assistance [DA] levels to Thailand have fallen annually over the past 5 years, from $19.8 million in 1986 to a proposed $14.5 million in 1990. Economic support funds [ESF] have held steady at $5 million over this same time period. The perceived increase in fiscal year 1990 assistance levels to Thailand is accounted for by a return to pre-1987 levels of military assistance. Military assistance in 1987, for example, totaled $52.2 million; in 1988, $45.6 million. The 1988 level of military assistance dropped to $24.2 million, but the 1990 request proposed $47.4 million.

WHAT IS BEING ACCOMPLISHED WITH FOREIGN AID

Senator **Leahy**. At a hearing yesterday, a general question was raised, which probably won't get answered this year. I have raised it with both the President and with Secretary Baker. That question is: Are we accomplishing much of anything with our foreign aid?

I don't mean just the political posturing that reiterates the debt problems at home and calls for cutting foreign aid. We are a superpower and obviously we have responsibilities not only to our own national security, but also a moral responsibility to help out in other nations. But we try to put a little bit here and a little bit there, and I sometimes wonder what we really get out of it.

Dr. **Adelman**. I do, too. That is what I spend every day doing, trying to figure out where we are having results, why, and how to make it more effective.

I think that the lessons of development over the last 20 to 25 years have been that development doesn't come necessarily through massive foreign aid transfers. I think if you look at the countries that have taken off over the last 20 years, we, the United States, certainly gave a lot of aid to South Korea for its infrastructure and helping them rebuild that country. That was a devastated country after the Korean War. Three-fifths of the land was absolutely unutilizable. Millions of refugees were roaming around the countryside.

It is amazing what they have done. We did pour in a lot there. It is a unique case.

In countries like Taiwan and others countries that have taken off, we have put money in, too. But because those countries developed the right kinds of policies——

Senator **Leahy**. Or we could put it another way, too. We allowed Taiwan, for example, to erect trade barriers while the United States took down trade barriers. Now we have an enormous, an unconscionable, trade deficit with Taiwan as a result. We have allowed them to get away with anything they've wanted, and we've just opened up the store.

It's one thing to say we only sent a certain amount in foreign aid. But we also gave them everything else they wanted. We opened up everything to them. We have allowed them, if they wanted, to send some of their intelligence agencies over here to beat up on their citizens in our country and do things that would have provided grand jury indictments if anybody else did them. We let them get away with that. We let them do anything they wanted to do.

So it is not quite just a free enterprise system. We closed a blind eye to criminal conduct on the part of some of their people here. I do not mean to paint this with too broad a brush. We have also had some great contributions from some of the Taiwanese who have come here and worked in the sciences, schools, and so on. But we have also allowed them to do anything they have wanted to do, no matter what it does to our own economy.

Again, they get certain advantages in having a huge market with hard currency from the United States. And, at the same time, we allowed them to close their markets to us.

That is another way of getting foreign aid.

Dr. **Adelman**. Certainly. Their trade policies and, as you say, their trade barriers and restrictions have certainly helped them develop.

Senator **Leahy**. I'm willing to bet that after 1992, the European Community is not going to be as generous to them as the United States has been.

Dr. **Adelman**. I think the playing field is definitely being leveled. But they are way ahead on that playing field, I think, right now.

Senator **Leahy**. But I do take your point. They have also done very well. But American dollars can go directly from the Treasury in the form of foreign aid, or they can go indirectly by building up a huge foreign debt, the diminishing of our exports, and losing millions of jobs. The taxpayers will pay one way or the other. We pay the bill sometimes by losing millions of jobs in this country because our export business has dropped so dramatically. Or we could just pay it through the Treasury.

IMPORTANCE TO THE UNITED STATES OF ECONOMIC GROWTH IN ASIA

Dr. **Adelman**. I think, though, in the East Asia area, what you are pointing out is important in terms of trade barriers and restrictions in some of our nonaid countries, where they are more severe than they are in countries where we are giving aid. It is important to know that the United States does a tremendous amount of trade with these countries. I think something like one-third of our international commerce is with East Asia. And this increases as they develop, as their economic growth rates go up.

So, consequently, we do believe that their economic growth, which we are trying to encourage, is good for the United States. They need the imports, the capital goods, equipment, and technology, to develop. So it will help us. There is a mutually beneficial relationship there. But it does not help us now where we do have these imbalances, which will have to be worked out.

PHILIPPINE MULTILATERAL ASSISTANCE INITIATIVE

Senator **Leahy**. Yet we still have massive foreign aid transfers. The MAI with the Philippines is projected to total $1 billion over the next 5 years.

Dr. **Adelman**. Yes.

Senator **Leahy**. What do we get out of that? Have they responded with any kind of plan of their own? Are they talking about reforms?

Dr. **Adelman**. They are. They are indeed.

Senator **Leahy**. Which?

Dr. **Adelman**. We don't have all the details on their economic framework paper, which they are working on now. But we are going to be getting the final version of that in the next several weeks.

But, as you know, the Philippine Government has already done a number of reforms, which have led to very high growth rates in the last 2 years. In 1987, it was 5.9 percent and last year's growth rate was 6.7 percent. They have done that by breaking up the sugar and coconut monopolies. They have liberalized trade. They have broken down import barriers. They have reduced government control over a number of industries. They have increased farm-gate prices. They really got inflation under control and signed an IMF agreement. I think that, in terms of the policies they have implemented they are on the right track.

They have to go further, and that is what we want this MAI to do. But I think the advantage of the MAI and the difference between this MAI and some of the past, more traditional, massive foreign aid transfers, is that it is an international effort to help the Government transform the Philippine economy and launch it on a path of sustained economic growth and expanded job opportunities. The MAI is, therefore, tightly geared to economic and administrative reforms. That is key.

We want the other donors to come in, and they are agreeing to come in, and gear that aid to the economic reforms that are being made in trade and development.

Senator **Leahy**. Well, let's talk about that some more. I am wondering whether we should hold back on the $200 million until we see just what the Philippine Government plans to do.

As these hearings continue, representatives of the administration are going to tell us we have to pay $300 million in arrearages to the multilateral development banks, $150 million for a new IMF program, more funds to fight drugs. We are going to be requesting at least $100 million more than what the administration has in its budget for refugees.

You know, $100 million or $200 million here and there, after a while, as a percentage of the total aid request, we are considerably over what is in the President's budget.

And then you add in the $200 million for the MAI. Just what do we get out of it?

You mentioned other countries participating in the MAI. But I have read Wall Street Journal and other reports that state that the Japanese are very clear about what they want to do. They will go in and they will aid development provided it helps their own economic interests. They will develop companies that will increase Japanese product development and sales.

When we send in money, at least it appears considerably more altruistic. This doesn't mean we shouldn't do it. But by sending $200 million to the Philippines, are we just helping to make Japan more competitive?

Mr. **Lambertson**. May I enter this discussion at this point?

Senator **Leahy**. Yes; please.

I hope you don't mind me interrupting you and going into these questions, but I find this far more valuable than having you simply read your statement, which I have already read.

But do you see what I'm saying? Foreign aid is about the most popular thing one can bring out on the floor of the U.S. Senate. In the last 10 years the whole foreign aid bill has come out of this committee because the Foreign Relations Committee, for a number of reasons, usually has been somewhat stymied. So we end up doing the whole thing.

I am not very popular back home when I'm seen defending the foreign aid budget and talking about this extra $200 million. I don't want the recipients to say give us the money now because the plan is in the mail. Maybe we should hold off for another year.

STATEMENT OF DAVID F. LAMBERTSON

Mr. **Lambertson**. I will dispense with my prepared remarks. They were truncated and we really don't need those.

Senator **Leahy**. It will be placed in the record.

Mr. **Lambertson**. One of the things I was going to emphasize, in fact, was the MAI. We think it is worth it. We think it is necessary to do it.

The $200 million, in our view, would be a good investment and one whose impact is going to be multiplied by the fact that this is going to be a multilateral program. It really is going to be multilateral. It is not just rhetorically multilateral.

The Japanese are going to be in it in a major way, and we think that is going to work to our advantage, in that the Japanese program, which is already very large, under the MAI would be linked to policy reform in a way that Japanese aid traditionally has not been.

This is really kind of a first for Japan.

It is also, we think, an innovative way of coordinating our program with the Japanese program, which we are going to find ourselves wanting to do more and more, as they get bigger and bigger in the aid game.

So this is a kind of pilot project in that sense.

The need for this extraordinary financing in the Philippines we think is very real. There is a financing gap that our economists point to, that World Bank economists point to, that has to be filled if the Philippines is going to grow at a healthy rate, which, in turn, is going to be necessary if they are going to make progress against the Communist insurgency.

So we envisage public flows of money over 5 years into the Philippines under the official assistance from ourselves and other donors, coordinated, and fairly heavy at the beginning in support of policy and administrative reforms in the Philippines, which ought to improve the investment climate and draw in foreign investment, as well as stimulate domestic investment. Toward the end of this 5-year period, the financing gap would be filled more and more by private flows and less by public flows.

We think it is a really good idea.

We think also that the Congress, rightfully, wants to know is this money going to be spent well. We think it is going to be. We have asked for no-year money, to give us flexibility, so that actual obligations can be very closely tied to Philippine performance in policy reform and administrative reform.

We will have to come back here next year and show you what has been accomplished.

We want to think of this as a 5-year program. We know that it is not going to be more than a 1-year program if it does not work.

[The statement follows:]

STATEMENT OF DAVID F. LAMBERTSON

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss our policies in East Asia and the Pacific, and our FY 1990 foreign assistance recommendations for this region.

The East Asia and Pacific region continues to exhibit impressive dynamism. We see its economic progress in the myriad variety of East Asia-produced goods which have become a part of our lives. Less visible here at home is the growing volume and value of American products flowing across the Pacific. As they begin to enjoy hard-earned purchasing power, the consumers of Asia are becoming as eager to import as they have been to export. As a result of this phenomenal growth in trade, the United States now conducts more than one-third of its entire international commerce with East Asia.

Progress in East Asia goes beyond economic gains. We have witnessed in that region a continuing evolution toward greater democracy and political openess. In the Philippines, Korea, Taiwan and elsewhere, democracy continues to advance. Reform has also continued in China, albeit at a slower pace. In Fiji, movement has begun to restore constitutional democracy. In Burma, too, stirrings of political renewal, and a desire for further change, are evident. In sum, there has been a heartening expansion in this vast and diverse region of values we share, a trend which complements in important ways our economic and security interests in East Asia.

We can also draw some encouragement from developments in Cambodia, where there is a sense that the conflict has entered its final stages. The shape of the outcome remains murky, however, as does its timing, and this continuing tragedy will require our steady, and active attention in the months ahead.

In Korea too, there are signs suggesting at least the possibility of change in the dangerous and hostile status quo which has for so long prevailed on the peninsula.

As welcome as these over-all trends and developments are, we have no cause for complacency. Indeed, the region's very dynamism poses challenges, to which we must respond positively if the United States is to remain a key player -- as our vital interests demand. Continued progress is by no means assured. Nor can U. S. policy alone be the determining factor in an area of such great diversity -- and power. And yet we can make a difference, and we must seek to do so. Our economic and security assistance programs remain a vital instrument in that effort. Among the challenges before us:

First, economic development has not been evenly distributed, even within countries which have exhibited exemplary growth rates. For example, the Philippines economy has begun to recover from years of mismanagement. But it will take a large and sustained effort to overcome widespread poverty, unemployment and lack of infrastructure.

Second, except for Japan, Australia and New Zealand, democracy is still very new in most countries of the region. We rightly applaud the elections conducted in the Philippines and the Republic of Korea. They are important not only for the peoples concerned, but as models for other countries. Still, we must remember that these trends could be reversed if the elected governments in these and other newly pluralistic countries of the region are unable -- or are perceived as being unable -- to deal with the daunting political and economic problems they face.

Third, economic and political power is becoming more diffuse. The United States is the predominant security guarantor in the region. But we no longer dominate economically, and must increasingly work in concert with friends and allies. Economic success -- and political development -- have fostered proud nationalisms that require from us increasingly subtle and flexible policies.

Finally, although the Asia Pacific is largely at peace, serious sources of tension -- both between states and internally -- remain unsolved.

Adequate levels of economic and security assistance remain key components in our over-all strategy toward this rapidly evolving region. The importance of these programs goes far beyond the developmental impact dollars and cents can have. Our aid programs provide visible and highly welcome symbols of an American intention to remain engaged in the region's affairs for the long-term. Confidence in that long-term commitment shapes the East Asian perception of our role and enhances our influence across the board, in areas as diverse as human rights, arms control or the resolution of regional conflicts.

Despite our many verbal assurances to the contrary -- backed up by deeds -- there exists in East Asia and the Pacific a concern that budgetary pressures and preoccupations elsewhere will compel the U. S. to pull back from our long-standing intensive involvement in the region's affairs. Declining foreign aid levels, in real terms, compound this concern.

For some years now, the United States has been second to Japan in providing economic assistance to East Asia and Pacific countries. Both we and the recipient nations have welcomed Japan's efforts to improve the economic well-being of its neighbors. But it would not be in our interest, nor in the interests of the nations of the region -- nor of Japan for that matter -- for Japan's role to become disproportionately large.

I would like to highlight two programs in particular. First, we are requesting $200 million as the initial U. S. contribution to the Multilateral Assistance Initiative (MAI) for the Philippines. We seek broad participation by a wide range of donors in a program we believe will multiply the impact of our own limited assistance resources and markedly enhance the prospects for the success of democracy in a country vital to our interests.

Second, we attach great importance to the small, but exceedingly effective International Military Education and Training (IMET) program. IMET is more than an aid program, it is similar to the Fulbright program; that is, an investment by the United States in the education of foreign military officers. Its benefit to the United States, in terms of future influence with foreign military leaders extends well beyond the small funds appropriated.

You will find below a thorough discussion of our security and economic aid requests for each of the thirteen proposed recipient countries, as well as for three regional programs. I have also appended statistical analyses responsive to your interests.

In summary, our requests come to a total of $813.76 million, with $552.85 million going to economic assistance (DA, ESF, PL 480 and the Philippines MAI) and the remainder, $260.91 million, to military assistance (IMET and FMS credits). These requests take into account the absolute need to reduce the budget deficit, and reflect our priority concerns. The economic request, exclusive of the Philippines Multilateral Assistance Initiative (MAI), represents only 5.5 percent of bilateral U. S. foreign economic assistance. While an increase, it follows several years of successive decreases in economic assistance to the region. The military aid level increases by $85.47 million over the FY 1989 request, with the additional assistance being sought to provide more FMS for the Philippines.

In closing, let me add that in view of the rapidly evolving international environment in the East Asia and Pacific region, these requests fall short of the amount optimally required to promote and defend U. S. interests in the region. In the future, new needs likely will appear. For now we are simply holding our own. We believe these requests will meet our minimal needs, and hope that the resources available to us in this important region can be enhanced in years to come.

I will now turn to individual country programs.

PHILIPPINES

Our policy of unequivocal support for the Aquino Administration's efforts to rebuild democracy in the face of numerous challenges has protected vital U.S. interests in the Philippines. The strong bipartisan support for our Philippine policy has been instrumental in its success.

While the Philippine people deserve the credit for their accomplishments, U.S. support has helped President Aquino reestablish democratic political institutions and preside over an emerging political consensus. President Aquino's continuing popularity, democratic reforms, strong economic growth, and the military's improved performance have challenged the leadership of the Communist Party and compounded their serious internal disagreements. While the insurgents have lost momentum, they remain a serious threat to democracy.

President Aquino's relations with the Armed Forces of the Philippines have improved. A military pay raise and increased deliveries of military equipment have helped morale and improved the military's effectiveness. But the military is still seeking to regain its pre-martial law professionalism and apolitical reputation. Some officers in the AFP continue to be discontented. Should the government suffer serious reverses against the insurgents or should the AFP perceive its interests to be threatened, it is conceivable that military disenchantment could again become a destabilizing factor in Philippine politics.

President Aquino is committed to protection of human rights and respect for human rights has greatly improved under her Administration. She recognizes that problems persist and is taking new initiatives to address them. Human rights abuses by some members of the police and military have undoubtedly occurred in violation of government policy. There is also evidence that some anti-communist groups have been involved in human rights violations; other allegations are probably fabricated by communist-influenced organizations seeking to weaken often effective anti-communist citizen groups or to discredit the Aquino Government. We continually raise our human rights concerns in discussions with Philippine Government and military officials.

U.S.-Philippines bilateral relations are in excellent shape. The successful conclusion of the 1988 review of the Military Bases Agreement laid the foundation for continuation of our security ties. We are confident we can negotiate a new arrangement based on mutual interests. The Philippines derives major economic benefits from hosting the facilities and the Philippine public strongly favors our continued securityrelations. While we expect a successful renegotiation, we are pursuing alternatives as prudent planning dictates.

The Administration's FY 1990 assistance request for the Philippines ($458.6 million) incorporates the first half of the President's two-year best efforts pledge made in conjunction with the 1988 MBA review. Failure to provide this assistance would adversely affect our bilateral relationship and complicate our efforts to negotiate continued access to our military facilities. Our military assistance will provide essential resources to the Armed Forces of the Philippines thereby promoting military professionalism and improving morale.

The Philippines confronts serious economic difficulties, including a large foreign debt, widespread poverty, and underemployment. Our economic assistance supports the Philippine Government's reform programs, which are key to revitalizing the economy, providing essential rural infrastructure and improving social conditions. We need to do more.

The Multilateral Assistance Initiative is a unique opportunity to assure our interest in a stable, democratic Philippines with a growing economy. There are compelling reasons for the United States to take a leadership role in this Initiative. It will build on significant Philippine economic progress to demonstrate that democracy and private-sector-led economic development works. It will strengthen the Philippine commitment to sound economic policies which will serve as a catalyst for new private investment. Our fiscal year 1990 request for $200 million for the initial U.S. contribution to the MAI is essential to its success.

MAI resources will be linked to the progress in implementing economic reforms. The availability of these resources will provide leverage to reform advocates to help them win approval of controversial restructuring measures. The MAI will also support Philippine administrative reforms to use assistance faster and more effectively, a necessary step in reducing the aid pipeline. Ultimately, we believe the MAI will significantly enhance the ability of the Philippine Government to deliver services, generating employment opportunities in depressed rural areas, and undermine the appeal of the communist insurgency.

The MAI is also an experiment in international assistance cooperation. As our assistance resources shrink, this multilateral program will leverage scarce U.S. assistance into much larger benefits for a country of central importance to U.S. policy interests. The MAI has already elicited a strong Japanese commitment in favor of increased support for economic reforms in the Philippines. The excellent policy dialogue we have established with Japan on the Philippines may have an important spill-over effect in other countries of mutual interest, as Japan becomes the world's largest bilateral donor.

Finally, we have a substantial commercial stake in a program that will help sustain economic growth in the Philippines. Approximately 30 percent of Philippine trade is with the United States.Special efforts to expand the Philippine economy, with its large domestic market, will enhance U.S. export and investment opportunities. The linkage of the two economies is apparent in last year's trade figures. U.S. exports to the Philippines rose 18 percent (to $1.9 billion) as a result of the Philippine recovery.

THAILAND

Thailand, the only U.S. treaty ally on the Southeast Asian mainland, continues to oppose the Vietnamese occupation of Cambodia. The Thai thus have faced not only the indigenous armies of Laos and the Heng Samrin regime in Phnom Penh but also up to 200,000 Vietnamese troops in Cambodia and another 40,000 in Laos. While the Vietnamese now claim to have withdrawn all but 50,000 troops from Cambodia (we believe the number is 60-70,000), the threat to Thailand remains. Diplomatic negotiations continue, but nothing on the ground has changed militarily.

Mutual security cooperation is the core element in the U.S.-Thailand bilateral relationship, a relationship that has served important U.S. interests extremely well. The Thai, particularly the government's military leadership, view our security assistance as a measure of U.S. support and commitment. Moreover, our assistance helps support the acquisition and maintenance of U.S.-produced military hardware by Thailand -- thereby enhancing sustainability of Thai forces and interoperability with U.S. forces in the event of a contingency.

In addition to security assistance, we continue to provide Thailand with a modest amount of development assistance. Core projects include management of natural resources and environment, science and technology for development, and trade and investment support, all important areas as Thailand continues its rapid progress toward advanced developing country status.

CAMBODIAN RESISTANCE

We are seeking to increase in FY90 our non-lethal assistance to the Cambodian non-Communist resistance from FY89's sum of $5 million to $7 million. Our primary objective here is to enhance the non-Communist resistance's ability to compete with the Communist Khmer Rouge whose return to political power the United States unalterably opposes. The requested sum would demonstrate tangible American support for ASEAN's strategy of applying political and military pressure on Vietnam to negotiate a peaceful solution to the Cambodian problem. It would be used for the training and equipping of two non-Communist resistance groups fighting the Vietnamese occupation forces and the Vietnamese-installed regime in Phnom Penh.

INDONESIA

Indonesia is the fifth most populous nation in the world and a major voice in the Association of Southeast Asian Nations (ASEAN). It lies astride vital air and sea lines of communication between the Pacific and Indian Oceans and has enormous reserves of valuable raw materials (especially oil and natural gas). It plays a constructive role in international affairs and is a moderate voice in the Non-Aligned Movement, ASEAN, OPEC, and in Islamic organizations. Within ASEAN, Indonesia has taken a leading role in the effort to end Vietnam's occupation of Cambodia and promote a political settlement there. Over the past two decades the Indonesian Government has furthered domestic political stability and has pursued sound economic policies, including a remarkable number of market-oriented reforms and responsible management of its external debt.

The Indonesian Government views economic and security assistance programs as an important indicator of U.S. concern for the security, stability, and economic development of Indonesia and Southeast Asia.

Our security assistance has traditionally supported substantial large-scale purchases of defense articles from the U.S. and trained future senior military leaders of the nation. Though reduced in size, we believe the program can continue to play an important role in bilateral relations. Our requested $5 million FMS grant funding and $2 million in IMET in FY90 will help Indonesia to meet its legitimate defense modernization needs, while at the same time enhancing regional stability. FMS financing will encourage purchases of U.S. defense articles following up the F-16 purchase. Under the IMET program we expect to provide professional military education and technical training to selected personnel to enhance managerial skills, technical capabilities, and support of U.S.-origin equipment.

The impact of our economic assistance program in Indonesia goes far beyond the relatively small amounts involved. Our aid assists one of the most successful non-coercive family planning programs in the world, and has contributed to the success of the Indonesian government's program of economic restructuring. The FY90 proposed DA funding of $43 million will help provide incentives for a more open, less regulated market and trade-oriented economy. Our assistance also helps to improve long-term, sustainable employment and income opportunities, in line with Indonesia's search for jobs for the 15 million people who will enter the labor force over the next five years. Other goals include improved agricultural productivity, human resources development, reduced fertility, and improved child and infant survival.

Proposed PL-480 funding is $10 million for Title I and $4.918 million for Title II. Title I provides food grains to supplement domestic production; the local currency proceeds from the grain sales provide further support for AID's policy reform-oriented development programs. Title II is particularly focussed on nutrition education activities in less-developed areas of the Indonesian archipelago. Title II monetization programs create employment through enterprise development and community water and sanitation schemes.

MALAYSIA

Malaysia is an active participant in ASEAN's strategy to force a withdrawal of Vietnamese forces from Cambodia and to secure a negotiated settlement. Soviet forces at Cam Ranh Bay pose a potential threat to Malaysia's security and Soviet naval forces regularly transit the Malacca Straits. Malaysia is

Non-aligned, but staunchly anti-communist, and Prime Minister Mahathir and other senior GOM officials have publicly endorsed the continued presence of U.S. facilities in the Philippines.

Proposed funding for IMET will ensure that Malaysian armed forces personnel are conversant with U.S. doctrine, equipment and military management techniques, and provide a foundation for close cooperation between U.S. and Malaysian forces. Malaysia views our modest security assistance program (the only form of U.S. aid it now receives) as tangible evidence of our commitment to its security and stability, which is of direct benefit to U.S. interests in the region.

KOREA

The United States has a vital interest in continued peace and stability on the Korean peninsula. The Korean security situation has not changed. North Korea maintains the bulk of its heavily armed forces well dug-in, close to the DMZ. To deter renewed aggression from North Korea, the United States continues to assist the Republic of Korea in its efforts to strengthen its defense capabilities. The United States has encouraged the Republic of Korea over the years to develop democratic practices and protect human rights.

In 1986, FMS credits for Korea were ended as a result of the Republic of Korea's economic progress and international trade position. Under the continuing FMS sales program, Korea is maintaining and upgrading its conventional land, air and sea systems for national defense.

In addition to FMS sales, there is a modest IMET program for Korea. Through the IMET program, the United States seeks to promote better understanding within the Korean military of U.S. military doctrine and traditions, including the role of the military in a democratic system. The IMET program helps strengthen the vital inter-operability of our forces. The Republic of Korea pays all transportation and living costs for its students.

SINGAPORE

Singapore is a staunch supporter of a continued U.S. role in East Asia and the Pacific. In addition to being a vocal proponent of a U.S. presence in the region, the Government of

Singapore allows U.S. military elements access to port facilities and airfields. Singapore is located at a key crossroads for air and ocean traffic between the Indian and Pacific Oceans. Furthermore, through its membership in ASEAN, Singapore makes an important contribution to stability in Southeast Asia. Its thoughtful voice is influential and counsels moderation in international organizations, such as the United Nations and the General Agreement on Tariffs and Trade (GATT).

We have requested $50,000 for Military Education and Training for Singapore. This modest security assistance program reinforces military-to-military cooperation and results in substantial commercial benefits to the U.S. through FMS case sales. Moreover, it bolsters Singaporean confidence in our commitment to the region and enhances the climate for cooperation on a broad range of bilateral and international issues. Singapore fully utilizes its IMET allocation and makes a significant contribution of its own to maximize the benefit of this education and training opportunity.

SOUTH PACIFIC REGIONAL

We are requesting $17.7 million in economic assistance ($11.2 million in ESF and $6.5 million in DA) for the South Pacific regional program in FY 1990. The program provides assistance to ten island nations: Niue, Western Samoa, Tonga, Tuvalu, Fiji, Vanuatu, Solomon Islands, Papua New Guinea, Kiribati, and the Cook Islands. In addition we are requesting IMET grants totaling $255 thousand (Papua New Guinea $75,000, Solomon Islands $75,000, Tonga $75,000, and Vanuatu $30,000). Our goals are to: (1) maintain access to the region's sea lanes; (2) assist friendly governments that pursue policies supportive of U.S. interests both in the region and in international fora; (3) restore and preserve regional goodwill toward the United States, which has suffered from the lack of U.S. presence in the post-World War II period; and (4) preserve U.S. access to marine resources in the region's exclusive economic zones.

The population of the entire region, almost one eighth of the earth's surface, is approximately five million. The area is in political transition. Fiji, long considered a good example of a maturing parliamentary democracy, is recovering in the aftermath of two military coups. Vanuatu has suffered from a prolonged political crisis, with one of the protagonists enjoying support from Libyan trained thugs. Papua New Guinea, with approximately 70% of the region's population, while enjoying a vigorous parliamentary democracy, has suffered from revolving door cabinets and a high level of largely nonpolitical violence.

A number of island governments have responded positively to the Soviet Union's growing interest in the region. Papua New Guinea has agreed to allow the Soviets to open a mission in Port Moresby, for example. Although the Soviet fishing treaties with Kiribati and Vanuatu have lapsed, it is premature to say other overtures will not be made. The Soviets continue to request permission to conduct oceanographic research activities, to send official delegations to the South Pacific, and to offer training/visits to the Soviet Union. The principal regional organization coordinating such research historically has eschewed offers of Soviet cruises. Over the past two years, however, we have been unable to fund our customary $200,000 contribution to its budget. The Soviets do not have a good record of sharing research results, and we believe this organization would prefer not to deal with them, but if it is unable to obtain resources from more congenial sources, it may have no choice.

Australia and Japan are the major aid donors to this part of the world, but their aid is not a substitute for American participation which underlines our continuing humanitarian and strategic interests.

FIJI

We are requesting $1 million in economic assistance for Fiji in FY 1990 all under ESF. Fiji's population of approximately 718,119 persons is almost equally divided between indigenous Fijians and persons of Indian descent. Before the 1987 military coups, Fiji was considered a model of stable, parliamentary democracy, relative interracial harmony and economic progress; the Indo-Fijians largely dominated the modern economy with the indigenous Fijians enjoying political dominance. However, elections in 1987 brought an Indian dominated government to power and sparked the military coups.

In response to the overthrow of the elected government, U.S. assistance to Fiji was suspended. In December 1988, President Reagan exercised his authority under section 614(A) of the Foreign Assistance Act to restore economic assistance.

U.S. interests in Fiji include: (1) encouraging the return of constitutional representative government; (2) limiting Soviet influence in the South Pacific; (3) maintaining access to the region's ports for U.S. warships and aircraft; (4) preserving access to the region's fisheries resources; and (5) ensuring continued support for U.S. positions in regional and international fora. Fiji consistently has been a strong advocate of U.S. regional and global interests, although its influence has been eroded by recent political events. Fiji also provides peacekeeping forces in Lebanon, the Sinai, and Afghanistan.

The restoration of U.S. assistance is aimed at strengthening the position of moderates who want a broadly-based, democratic solution for their country, and our programs will focus on projects with direct human needs benefits to all of Fiji's ethnic groups.

Military assistance to Fiji, $100,000 in IMET and $300,000 in MAP, remains on hold under Section 513 of the Foreign Operations, Export Financing and Related Programs Appropriations Act. The requests for FY '90 are for planning purposes only, and there is no intention to restore military assistance at this time.

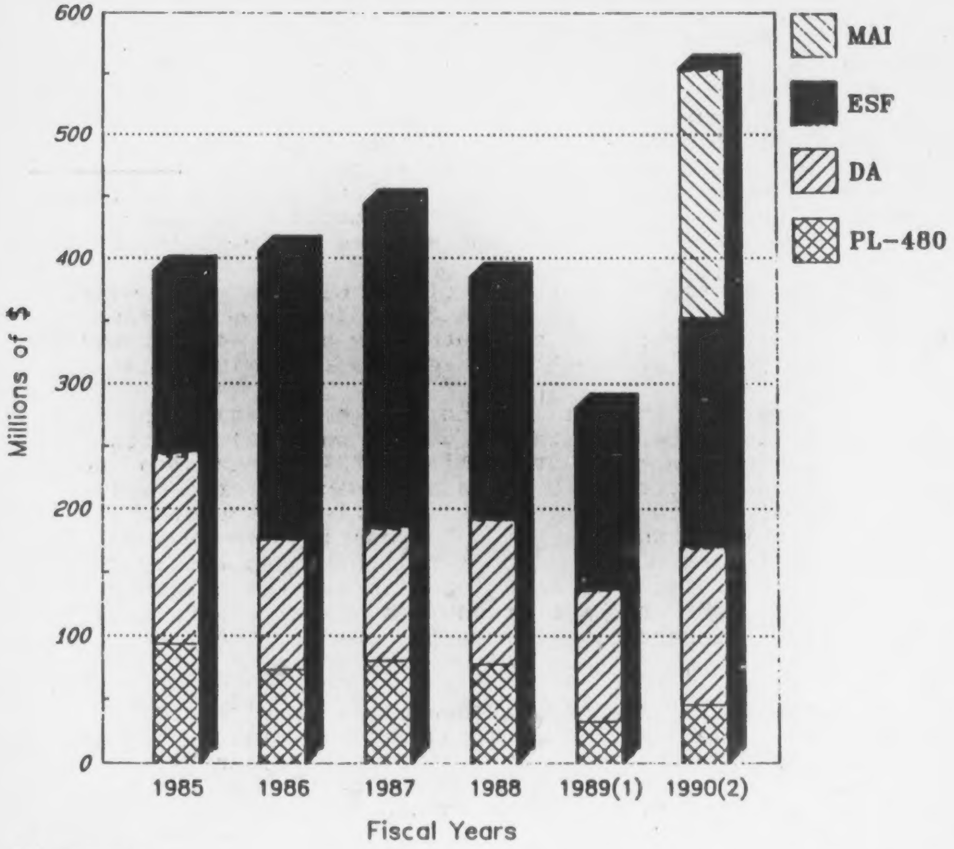
BURMA

Prior to the halt in all US assistance to Burma in September 1988, IMET training was needed to develop a Burmese military capable of effectively combatting the insurgencies and drug traffickers. Those needs remain. Not only did US military training contribute to a more effective Burmese military, but it also provided one of the principal avenues of contact between Burmese officers and the US, in a relationship where such opportunities were relatively few.

For FY1990, we have requested IMET funding in order to be able to respond in the event the Burmese government carries through on its pledge to turn over power to a popularly-elected civilian government. Absent such political reform, however, we do not intend to resume military or other assistance to Burma.

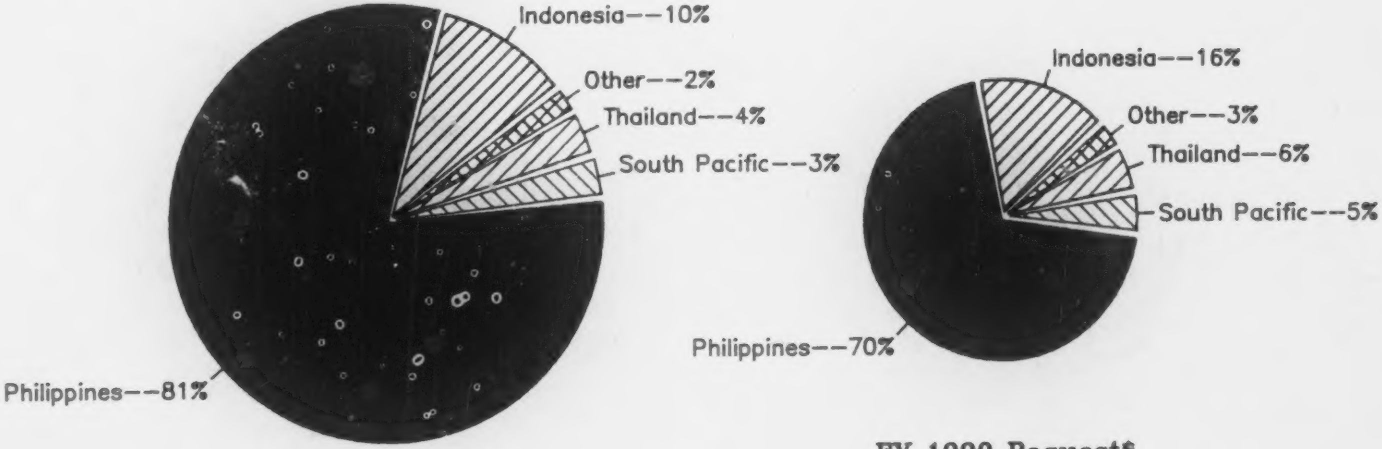
U.S. Economic Assistance to the East Asian and Pacific Region

(Appropriation Basis)



(1) Estimate
(2) Request
EAP/EP: 2/23/89

U.S. Economic Assistance to the East Asian and Pacific Region



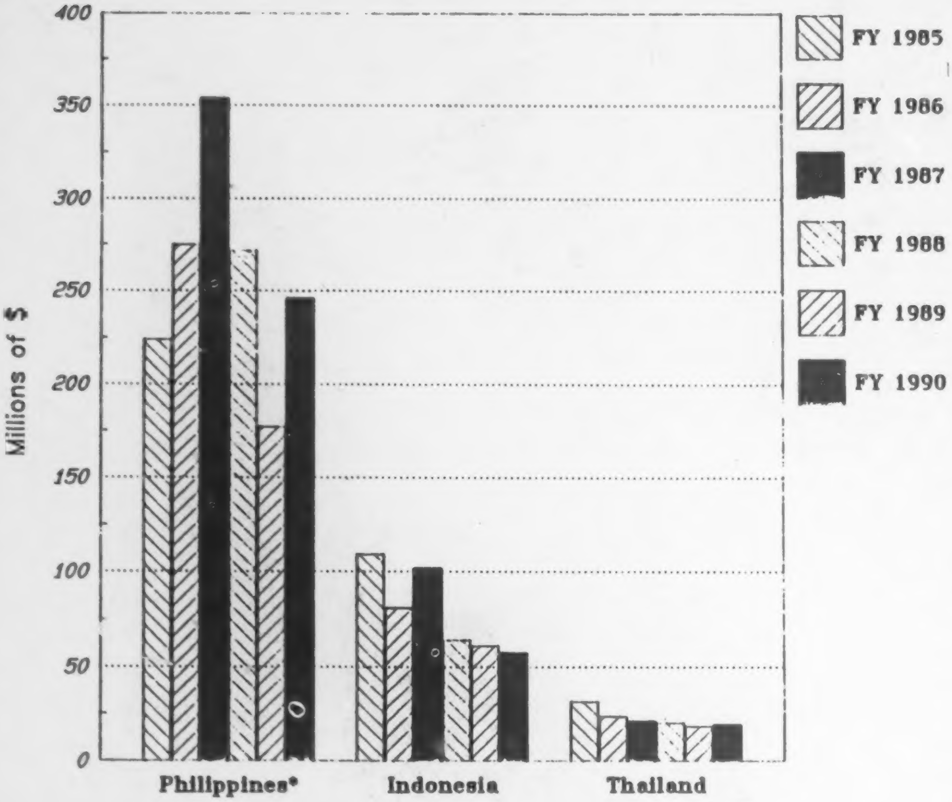
FY 1990 Request
$ 553.5 Million

FY 1990 Request*
$ 353.5 Million

*Not including $200 million request for Multilateral Aid Initiative for the Philippines
Econ. Assistance = ESF+DA+PL-480

U.S. Economic Assistance to the East Asian and Pacific Region

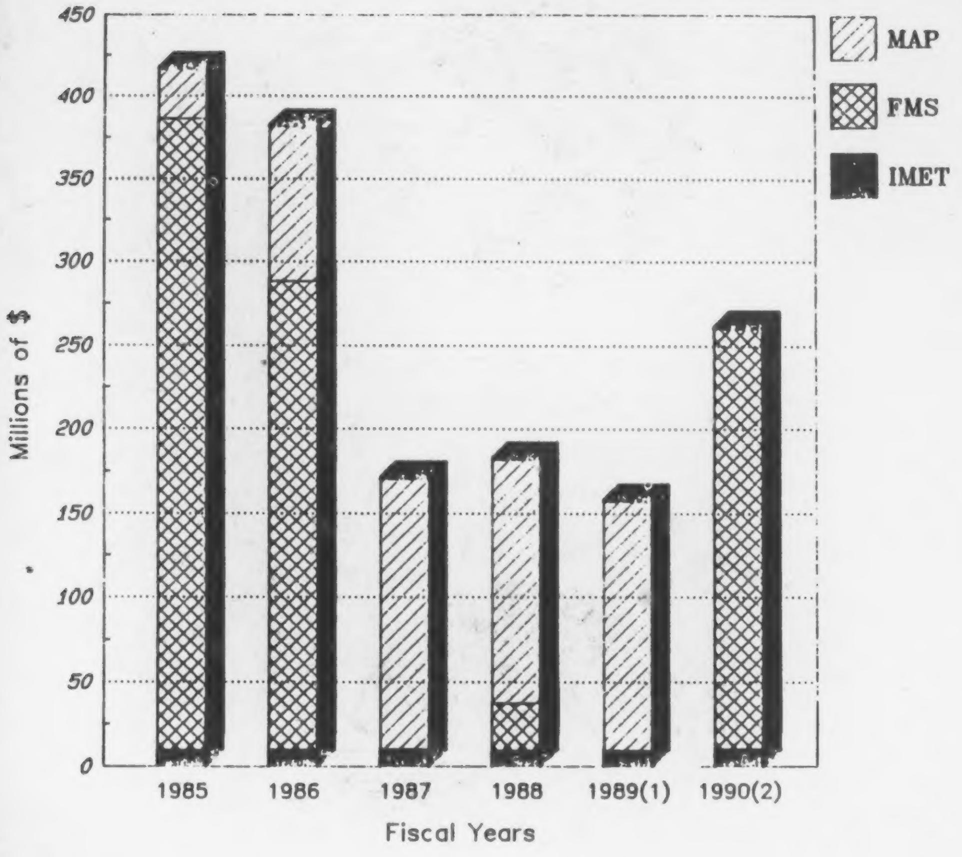
(Appropriation Basis)



*Does not include request for $200 million for Multilateral Aid Initiative in FY1990

EAP/EP: 2/23/89

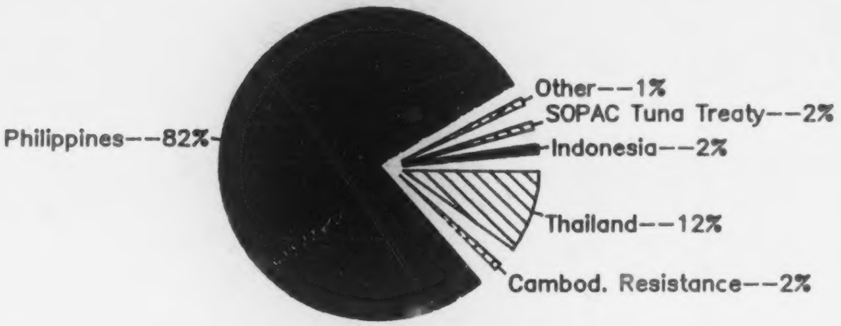
U.S. Military Assistance to the East Asian and Pacific Region
(Appropriation Basis)



(1) Estimate
(2) Request
EAP/EP: 2/23/89

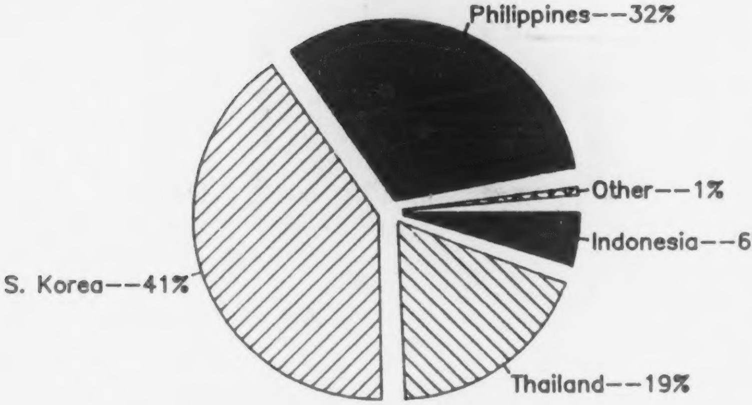
U.S. Security Assistance to the East Asian and Pacific Region

FY1990 Request



Total FY 1990 Request
$ 445.1 Million

FY1985



Total FY 1985 Allocation
$ 566.0 Million

Security Assistance = ESF+FMS+MAP+IMET
EAP/EP: 2/17/89

SECURITY ASSISTANCE - EAST ASIA AND THE PACIFIC
(millions of U.S. dollars)

COUNTRY	FY 1987	FY 1988 Actual	FY 1989 Allocation	FY 1990 Request
BRUNEI				
IMET	0.00	0.00	0.00	0.00
BURMA				
MAP	0.00	0.00	0.00	0.00
IMET	0.27	0.28	0.25	0.25
Total	0.27	0.28	0.25	0.25
CAMBODIAN RESISTANCE				
ESF	3.35	3.50	5.00	7.00
FIJI				
MAP	0.30	0.00	0.00	0.00
IMET	0.10	0.00	0.05	0.10
FMS				0.30
ESF	1.50	0.00	0.00	1.00
Total	1.90	0.00	0.05	1.40
INDONESIA				
MAP	10.00	0.00	1.00	0.00
IMET	2.00	1.80	1.79	2.00
FMS	0.00	4.00	0.00	5.00
Total	12.00	5.80	2.79	7.00
KOREA				
MAP				
IMET	2.00	1.66	1.50	1.65
FMS	0.00	0.00	0.00	0.00
Total	2.00	1.66	1.50	1.65
MALAYSIA				
IMET	1.00	0.92	0.95	1.00
FMS	0.00	0.00	0.00	0.00
Total	1.00	0.92	0.95	1.00
OCEAN RESEARCH				
ESF	1.00	0.00	0.00	0.20
PAPUA NEW GUINEA				
IMET	0.05	0.05	0.05	0.075
PHILIPPINES				
MAP	100.00	125.00	125.00	0.00
IMET	2.60	2.60	2.60	2.90
FMS	0.00	0.00	0.00	200.00
ESF	250.00	174.00	124.00	160.00
Total	352.60	301.60	251.60	362.90
SINGAPORE				
IMET	0.05	0.05	0.05	0.05

EAP/EP: RWatts - 1/25/89

COUNTRY	FY 1987 Actual	FY 1988 Actual	FY 1989 Allocation	FY 1990 Request
SOLOMON ISLANDS				
IMET	0.03	0.03	0.03	0.075
SOPAC REGIONAL				
ESF	0.50	0.00	0.00	1.00
SOPAC TUNA				
ESF	0.00	10.00	10.00	10.00
THAILAND				
MAP	50.00	20.00	22.00	0.00
IMET	2.20	2.15	2.20	2.40
FMS	0.00	23.50	0.00	45.00
ESF	5.00	5.00	5.00	5.00
Total	57.20	50.65	29.20	52.40
TONGA				
IMET	0.05	0.05	0.05	0.075
VANUATU				
IMET	0.00	0.00	0.00	0.03
EAP TOTALS	432.00	374.57	301.52	445.10
ANNUAL % CHANGE	-36.5%	-13.3%	-19.5%	47.6%

ITEM	FY 1987 Actual	FY 1988 Actual	FY 1989 Allocation	FY 1990 Request
EAP MAP	160.30	145.00	148.00	0.00
WORLD MAP	900.40	700.75	467.00	0.00
EAP % WORLD	17.8%	20.7%	31.7%	0.0%
EAP IMET	10.35	9.57	9.52	10.61
WORLD IMET	56.90	47.40	47.40	54.50
EAP % WORLD	18.2%	20.2%	20.1%	19.5%
EAP FMS	0.00	27.50	0.00	250.30
WORLD FMS	4,040.44	4,049.00	4,460.00	5,027.00
EAP % WORLD	0.0%	0.7%	0.0%	5.0%
Other Military		41.53	31.69	33.38
ESF EAP	261.35	192.50	144.00	184.20
ESF WORLD	3,552.66	3,269.37	3,258.50	3,349.10
EAP % TOTAL	7.4%	4.1%	4.1%	4.1%
EAP SAID	432.00	374.57	301.52	445.11
WORLD SAID	8,550.40	8,108.05	8,264.59	8,463.98
EAP % WORLD	5.1%	4.6%	3.6%	5.3%

EAP/EP: RWatts - 1/25/89
SAID.wk1

ECONOMIC ASSISTANCE - EAST ASIA AND THE PACIFIC
(millions of $)

COUNTRY	FY 1987	FY 1988	FY 1989 Estimate	FY 1990 Request
ASEAN				
DA	3.7	3.6	3.2	3.3
BURMA				
DA	7.0	5.2	0.0	0.0
CAMBODIAN RESISTANCE				
ESF	3.4	3.5	5.0	7.0
PL480(II)	0.0	0.0	0.0	0.0
Total	3.4	3.5	5.0	7.0
CHINA				
PL480(I)				
FIJI				
DA	0.0	0.0	0.0	0.0
ESF	0.1	0.0	0.0	1.0
Sec. 416	2.6	-	-	-
Total	0.1	0.0	0.0	1.0
INDONESIA				
DA	59.5	39.9	42.0	43.0
PL480(I)	38.0	15.0	15.0	10.0
PL480(II)	4.5	9.5	4.5	4.9
Total	101.9	64.4	61.5	57.9
PHILIPPINES				
DA	12.0	40.0	40.0	55.0
PL480(I)	0.0	30.0	0.0	15.0
PL480(II)	38.9	27.9	13.4	16.5
Sec. 416	53.8	-	-	-
ESF*	249.2	174.0	124.0	160.0
Other Econ.				200.0
Total	353.9	271.9	177.4	446.5
SOPAC FISHERIES				
ESF	1.5	0.0	0.0	1.0
SOPAC OCEAN RESEARCH				
ESF	0.2	0.0	0.0	0.2
SOPAC REGIONAL				
DA	4.4	6.7	4.0	6.5
SOPAC Treaty				
ESF	0.0	10.0	10.0	10.0
THAILAND				
DA	15.9	15.3	13.6	14.5
ESF	5.0	5.0	5.0	5.0
Total	20.9	20.3	18.6	19.5

Based on appropriations, not obligated amounts.
EAP/EP: RWatts -

ITEM	FY 1987	FY 1988	FY 1989 Estimate	FY 1990 Request
DA EAP	102.5	112.6	102.7	122.3
DA WORLD	1,970.6	2,158.0	2,164.1	1,922.9
EAP % TOTAL	5.2%	5.2%	4.7%	6.4%
ESF EAP	259.3	192.5	144.0	184.2
ESF WORLD	3,552.7	3,188.3	3,258.5	3,349.1
EAP % TOTAL	7.3%	6.0%	4.4%	5.5%
PL480(I) EAP	38.0	45.0	15.0	25.0
PL480(I) WORLD	548.9	767.0	852.0	265.9
EAP % TOTAL	6.9%	5.9%	1.8%	9.4%
PL480(II) EAP	43.4	37.4	17.9	21.4
PL480(II) WORLD	534.1	715.0	630.0	665.0
EAP % TOTAL	8.1%	5.2%	2.8%	3.2%
EAP ECON (not incl. MAI)	443.2	387.5	279.6	352.8
TOTAL BILATERAL	6,606.3	6,828.3	6,904.6	6,402.9
EAP % TOTAL	6.7%	5.7%	4.1%	5.5%
EAP % Change	-6.4%	-12.6%	-27.8%	26.2%
Philippines MAI				200.0
Total EAP ECON	443.2	389.4	279.6	552.8
TOTAL BILATERAL	6,606.3	6,828.3	6,904.6	6,402.9
% Change	6.7%	5.7%	4.1%	8.6%
Non-MAI % Change	-6.4%	-12.1%	-28.2%	97.7%
Non-Phil. EAP EC	89.3	117.4	102.2	106.4
TOTAL BILATERAL	6,606.3	6,828.3	6,904.6	6,402.9
Non-Phil. EAP %	1.4%	1.7%	1.5%	1.7%
Non-Phil. % Ch.	-54.9%	31.5%	-13.0%	4.1%
ANNUAL % CHANGE WORLD	-6.0%	3.4%	1.1%	-7.3%

N.B. PL-480 Levels do not include Transportation Costs.

EAP/EP: RWatts - 03/23/89

DEBT SERVICE

Senator **Leahy**. Do you know offhand what the approximate debt service is for the Philippines per year?

Dr. **Adelman**. I think it is about $3.6 billion.

Mr. **Lambertson**. $3.6 billion.

Senator **Leahy**. I thought it was about that. Talk about a black cloud hanging over their head.

I can only speak as one member of the committee, but I will tell you two things that bother me the most. First, just what is going to be the Philippine response to the MAI specifically. I'd want to know that before I go to the Senate floor with this. Second, concerning multilateral aid, I would like—and this is not the hearing for it; maybe somebody should come up and talk with me and with Eric Newsom further on this—to know just what it is that the Japanese plan to do there.

Mr. **Lambertson**. It is going to be a multilateral program, but the actual obligation of funds is going to be on a bilateral basis; that is, our money is not going to be put into some kind of big pool. We will be in control of it.

Senator **Leahy**. Oh, I understand that. That is what prompted part of my question. But are the Japanese involved only to take care of their own manufacturers and companies' economic interests; where we are doing this because it is a good and right thing to do to help the Philippines?

Mr. **Lambertson**. I simply believe that we are going to be able to come back here a year hence and be able to point to some progress in economic policy and administrative reform in the Philippines, to continued growth, and I believe an ongoing, viable, multilateral program. I have a fair amount of confidence at this point, and I hope we can get it launched.

We know the Filipinos are working on the framework paper that is the first step. We expect to see it fairly soon. At that point, I think the basic shape of the program will begin to firm up a lot more rapidly.

Senator **Leahy**. Bob, did you have a statement?

Senator **Kasten**. Yes; I do.

I want to join you, Mr. Chairman, in welcoming these witnesses to the subcommittee, and I especially want to give a warm welcome to my friend Carol Adelman. We are happy that you are here and we look forward to working with you.

If there is an opportunity for questions, I'd be happy to ask a few questions.

Have you gone ahead with your statements?

Senator **Leahy**. We have sort of put the statements in the record because we have such excellent witnesses here today, people whom the committee all respect. We started in with questions right from the beginning.

Just as you came in, I was about to yield to Tom for some questions.

Senator **Kasten**. Fine. I will wait my turn.

Senator **Leahy**. Senator Harkin.

Senator **Harkin**. Thank you. Bob, I appreciate that.

I have just a couple of things that I thought I would go over. There are two areas that I want to cover with you here as we talk about the Philippines.

HUMAN RIGHTS IN THE PHILIPPINES

I have been concerned over the reports over the last year of increasing abuses of human rights in the Philippines, both by the left, the NPA, and also by paramilitary units of the regular forces of the Philippine Armed Forces.

A lot of stories have come out in the papers. Disappearances in the Philippines are increasing.

Has our Embassy expressed concern in public or in private about the increasing number of disappearances in the Philippines?

Mr. **Lambertson**. Yes; we have.

Senator **Harkin**. Have you publicly expressed that?

Mr. **Lambertson**. Publicly, and privately in conversations with a range of Philippine leaders.

We are expressing our concern with respect to the general climate of human rights which we continue to believe is relatively good, given the circumstances that exist in the Philippines in terms of the insurgency and conditions relating to it.

Senator **Harkin**. Last fall, Benjamin Lazzaro was kidnaped at gunpoint outside of a theater in Manila. His wife, who is a reporter for the Manila Standard newspaper, has been trying to find out where he has been since that time. Allegedly, the people who kidnaped him said they were members of the armed forces of the security agency.

Nothing has been done.

Has the Embassy done anything to look into his case, to try to see if the Aquino government has done anything to investigate his disappearance?

Mr. **Lambertson**. Our Embassy in Manila has made repeated inquiries regarding the Lazzaro case with the Philippine Department of National Defense, Department of Foreign Affairs and the Commission on Human Rights. The Embassy has also been tracking this case with private Philippine human rights watchgroups such as the Philippine Alliance of Human Rights Advocates [PAHRA] and Task Force Detainees [TFD]. Philippine authorities had concluded that the initial investigation had reached a dead end, but due to recent Embassy inquiries, the Commission on Human Rights directed its Investigation Office to establish a team with special funds to reopen the case.

Last autumn, the Armed Forces of the Philippines and the police launched an investigation and searched metro Manila detention centers for Mr. Lazzaro. Investigators interviewed eyewitnesses who could not give specific descriptions of the kidnapers, but were able to provide a license plate number for one of the cars. The car was located. An initial report found that none of the units of the Intelligence Service of the Armed Forces of the Philippines operating in metro Manila at that time participated or were involved in the abduction. The military believes that Lazzaro was executed by the NPA as a government deep penetration agent. We cannot verify this report. The Task Force Detainees has expressed its skepticism regarding this explanation. Investigators are now re-examining the car used in the abduction and pursuing local leads. The Embassy will continue to follow the progress of the investigation being conducted by the Commission on Human Rights.

I might add that a number of these disappearances frankly look suspicious from the other point of view. It is entirely possible, we think, that in more than one instance the disappearance was, in fact, carried out by the Communists. They are certainly capable of doing that, and it is relatively easy to make it look otherwise.

It is very difficult sometimes to get to the bottom of these things. The Embassy makes a concerted effort to do so, and we will continue in this.

Senator HARKIN. The Commission on Human Rights recently set up regional offices throughout the country.

Has the U.S. Embassy undertaken visits to any of these offices to get a sense of how the people there respond to reports of human rights abuses?

Mr. LAMBERTSON. Yes; The Embassy has visited those offices in the provinces. Our Consul in Cebu has also visited them. I think they have generated a good deal of interest in the Philippines. The reporting of human rights abuses is up. The interesting thing there is that many of the reports have to do with abuses that took place prior to February 1986, which is something that skews the statistics. But there is, you know, fundamentally an open society in the Philippines and people are able to express themselves and don't hesitate to do so when they hear of human rights abuses.

Senator HARKIN. Well, we are getting more and more reports, and the Washington Post carried a story about the fact that the fingers keep pointing to certain right-wing elements of the Philippine Armed Forces as being still active.

Mr. LAMBERTSON. There have been a lot of stories pointing to abuses by the so-called vigilante groups.

Senator HARKIN. Yes; that's right.

Mr. LAMBERTSON. These are paramilitary units that have existed in many areas of the Philippines for a long time. They range from unarmed, neighborhood-watch type organizations, to armed, genuine paramilitary organizations. They perform, unfortunately, a necessary function in many parts of the Philippines because there is an insurgency. The Philippine Armed Forces are small. They cannot be everywhere at once, and village security requires indigenous protection.

So these kinds of organizations unfortunately are essential.

The Philippine Constitution of 1987 mandated the disbandment, however, of the old constabulary, the old civilian home defense forces, and the groups that have been called vigilante groups, and their replacement with something that is better disciplined and better trained, called CAFGU's. That program is going forward.

We think that is a step in the right direction. These kinds of organizations at the local level need to be well trained. They need to be under military discipline, and that is happening.

It costs money. It takes time.

Senator HARKIN. The fiscal year 1989 conference report required a State Department report on vigilante violence by April 30, this month.

Mr. **Lambertson**. Yes, sir; that will be on time.

Senator **Harkin**. It will? Thank you.

HUMAN RIGHTS IN EAST TIMOR

The second part of the questions I have are these.

I have had a long and continuing interest in and concern about East Timor, now going on for about 13 years. Again, 13 years after the Indonesian invasion of East Timor, every report I see indicates that Timorese people continue to suffer daily violations of fundamental rights. Freedom of speech, association, and movement remain subject to severe restrictions. Residents in East Timor consistently describe a climate of fear and strong security apparatus. After President Suharto, who has ruled Indonesia now with an iron hand for 20 years, visited there in 1988, hundreds were arrested and very few have been released.

Two of the hundreds of persons detained last year are expected to go to trial shortly.

Given the allegations of unfair trials in East Timor in the past, would the Department consider sending an Embassy observer to these trials as an indication of our concern?

Mr. **Lambertson**. I think we could consider that. I don't know that the Embassy has. I am not sure when this trial is to take place. We certainly do that sort of thing, and it is very possible we would want to in this case.

In fact, of the several hundred persons detained in late October, all but eight were released shortly thereafter. The eight remaining detainees were tried, mostly in March, and received sentences of from 4 to 6 months.

Although our Embassy did not send an observer to those trials, it is prepared to consider doing so, on a case-by-case basis, for trials in the future.

I think my own view is—and I have not been to East Timor—but the reports that I have seen over the last couple of years suggest to me that the situation in East Timor is improving, not regressing, and that violations of human rights are decreasing, rather than increasing, and, indeed, that the situation is, in important respects, normalized.

The government has announced as of January 1 of this year that the province is open to visitors. Visitors are beginning to go there. The government expends more of its development budget in East Timor on a per capita basis than it does anywhere else in the country in an effort to bring East Timor up to the national standard.

We try to keep an eye on it. Our Ambassador has been there relatively recently. We send Embassy officers to East Timor from time to time. We continue to make it an issue in our bilateral dialog with the Indonesians, and we are going to continue to watch it.

But my impression is that things are improving, are continuing to improve.

Senator **Harkin**. In that regard, would the Department be willing to request the Indonesian Government to provide unrestricted access to East Timor for American journalists and representatives of human rights organizations?

Mr. **Lambertson**. Yes; and I think we have already asked. I believe we have been assured that the people who wish to visit are welcome to do so.

Senator **Harkin**. Unrestricted, for journalists and human rights organizations?

Mr. **Lambertson**. I believe that is the case, Senator. Yes.

Senator **Harkin**. If I hear anything different, I will let you know, and if you hear anything different, contact me. I would appreciate that.

Mr. **Lambertson**. Yes, indeed.

Senator **Harkin**. Thank you.

Thank you, Mr. Chairman.

Senator **Leahy**. Thank you.

Bob.

PHILIPPINE ENVIRONMENTAL CONCERNS

Senator **Kasten**. Mr. Secretary, despite extensive contact between this subcommittee and the Department to discuss environmental concerns in the Philippines, we could not find any discussion of environmental protection or resource management in your prepared testimony.

Was this an oversight, or are you not listening to what we have been working through? Do we have to be more specific?

We are very concerned, particularly with this new $200 million in multilateral assistance, that we start to take into consideration some environmental concerns and needs.

Mr. **Lambertson**. We share your concerns. Indeed, anyone who knows about the Philippines has to be concerned about the environmental degradation that is going on there by virtue of rapid population growth and an economy that still is not performing as well as it must.

Senator **Kasten**. Well, it's mismanagement of the resources and not just rapid population growth.

Mr. **Lambertson**. Yes, indeed. But rapid population growth certainly is an important part of this, with pressure on the land. Farmers are tilling land that should not be tilled. Fishermen are over-fishing their local waters. Many of these problems are going to be solved probably most effectively when the general state of the economy is improved and rural employment increases. But it is a major problem and we know that.

I don't have at hand a listing or an accounting of how our own programs for the Philippines address these environmental questions. But I know we have something.

Senator **Kasten**. Well, I have one question for you and then one for AID on this same area.

My question to you has to do with the fact that you don't mention the environment or environmental concerns in any of your presentations before this subcommittee. Does that indicate an oversight, or are you just not concerned about the environment?

You said that you are concerned about the environment and that you will work with us. We have had a number of different meetings with some of your staff people on these questions.

Mr. **Lambertson**. It is something that we do care about. We are concerned about it. The fact that it does not appear in my statement is a function of the need to compress a lot of things in a statement and still to make it decently short.

Senator **Kasten**. I am going to put into the record a number of questions with regard to environmental officers in the Embassy, environmental performance at U.S. military bases, and particularly of that $200 million, how much might be used toward environmental and resource management programs. There is a series of five or six questions to which I would like you to respond in writing, and maybe we can start to set this straight.

EGYPT CASH TRANSFER

Carol, this is within your portfolio but not within the context of this hearing. I want to ask one question about Egypt, and then go back and talk about the Philippines.

Because President Mubarak was just here, I wanted to ask you one Egypt question.

A big issue recently is the $230 million of cash transfer that we have withheld. There has been discussion back and forth about releasing all or part of that money, or of different kinds of schemes, to fence it, or to fence parts of it.

All of us are interested in economic reform in Egypt. But many of us on this subcommittee are concerned that we are making a large, political issue out of $230 million, which can be used against President Mubarak and the present leadership in Egypt.

Frankly, I don't think it is worth the trouble.

I know that there are a number of people tucked away in AID and at the State Department that want to use this as a lever and kind of hammer away. But I think we are making a mistake.

Now that Mubarak has left, has any decision been made with regard to the $230 million of cash transfers? Will that money be released?

Dr. **Adelman**. The decision has not been made yet. In fact, my deputy and our Egypt Desk Officer and the State Department Desk Officer are meeting with the top Egyptian economists as we talk this morning, to go over the full package of reforms that they gave us. It is a very excellent package. It is comprehensive on both the macro end and on the supply side, industrial liberalization end as well.

We want to make sure, both from the point of view of economic reform and to comply with the legislation which calls for implementation of significant additional economic reforms that we know more about reforms, that we see what they are, that we get a rough timetable on when the decrees are coming out and when the commitments are being made.

In the meeting with President Mubarak, Ambassador Woods and myself, and his top people, President Mubarak charged us all with staying in town until we got this done. We hope we are going to have some positive news on this soon.

But they are still working out the details.

Senator **Kasten**. That is good news. I know that the chairman shares my concern about this, and that other members of the subcommittee do as well.

We have made something out of $230 million that has gotten out of scale, I think, in terms of the overall impression that we are leaving.

Senator **Leahy**. Especially since it has been so public.

Senator **Kasten**. Egypt is a partner and we want to work closely with her. The Egyptian Government will be making some of these reforms. I think, as the Chairman said, some of the public pressure is counterproductive. They have a better chance of dealing with these issues on their own.

That is good news. I just hope that you will let us know as soon as you have made a decision with the Egyptians. This is an important issue.

Dr. **Adelman**. Yes.

PHILIPPINE ENVIRONMENT

Senator **Kasten**. Let me switch back to the Philippines and talk a little bit about the environment.

We recognize that the Philippines have experienced a tremendous economic growth. But you can also see that the economic development in the Philippines has been largely based on resource extraction. Their forests, for example, are being cut at an unprecedented rate, and the fertile soils are being washed away. They are being used for other purposes.

Also, one of the most productive fisheries in the world surrounding the Philippines is being decimated because of dynamite fishing, the use of poisons and other abusive fishing practices.

So we are seeing the development, but it is based on squandering the resources.

Could you comment on per capita GNP rates when the productivity of the natural resource base of the Philippines is factored into these calculations?

The World Resources Institute has developed a preliminary analysis of this type, and their review indicates that the Philippines' economic base may, in fact, be collapsing. They are literally eating their seed corn. And, even though the numbers might look better on a chart right now, the infrastructure, the economic infrastructure, is being destroyed.

Would you comment on this overall question and what you all are doing?

Dr. **Adelman**. Sure.

You have hit the nail on the head. The very high growth rates that we have seen in East Asia—in Thailand, Indonesia, the Philippines and some of the other countries—relatively high growth rates—6 percent, 7 percent, 8 percent, sometimes 9 percent that we saw in the 1970's. We have seen in the last several years, though there was a downturn from 1983 to 1985 or so. These are much higher than United States average growth rates. Our development proceeded more slowly and the growth rate fluctuated quite a bit.

Consequently, there have to be some costs to these high growth rates. I think they are good, they provide jobs, and we need them.

But, at the same time, there have been some costs to them. One of the costs has been environmental degradation. It is clearly a problem in some of these countries.

In fact, all of our missions have placed the environment and natural resources as one of their major thrusts. The Philippines has it as one of the four major priorities in its program.

They are in the process of developing a $10 million project for next fiscal year, which is an environmental-natural resources project. It is going to assist the development of the new Philippines Department of Environment and Natural Resources.

One of the first things we are going to do is an environmental country profile. We are going to identify the problems and then see where we go with this $10 million that we are proposing for fiscal year 1990.

With that said, we have already been involved, as you probably know, in addressing their deforestation problems with agriforestry techniques, helping upland farmers that have been pushed into marginal agricultural areas where poverty has forced them into slash and burn agriculture and exploitative logging practices. We are helping them with replanting fruit trees and fast-growing species for firewood and lumber. In addition, we are helping to promote and teach soil conservation practices appropriate to uplands agriculture.

Additionally, we have provided some initial help in coastal resources management, assisting in the development of artificial reefs.

WORLD RESOURCES INSTITUTE REPORT

Senator **Kasten**. Have you done any analyses like this World Resources prototype? They try to look at per capita gross national product and growth by factoring in real economic growth and development, as opposed to using up resources.

[The information follows:]

My staff is aware, in general terms, of the work being done by the World Resources Institute, and we are very excited by it. Conceptually, the adjustment of growth rates is fairly simple if you have an adequate methodology for attributing a value to the environmental factors. It is this methodological improvement that we hope the World Resources Institute will help us with. Our environmental staff is in touch with Institute staff and we expect to see a draft of the Institute's most recent work in early May. I would be glad to send you a report on our analysis of their work and how it might be useful in our macroeconomic analysis as soon as we are able to review it. We are aware of the excellent work the Institute has been doing on the Philippines in particular and have been in discussion with Institute staff.

Senator **Kasten**. That might be very helpful to you in all these different places.

Dr. **Adelman**. Yes; absolutely.

Senator **Kasten**. It is one thing to take all the fish out of the pond and then move to the next pond. That is effectively, as far as we can tell, what is going on. They are trying to develop a model that shows you have to leave so many fish in the pond in order to have fish next year.

If we could put that kind of thinking into your work, you could then hook that into your development work.

Dr. **Adelman**. Yes; we will look into that.

Senator **Kasten**. Let's work together on that.

Dr. **Adelman**. Absolutely

DEBT-FOR-NATURE SWAP

Senator **Kasten**. I would be anxious to do that.

You may not be prepared to respond to this next question, and if you are not, you can for the record.

Yesterday was the first successful debt-for-nature swap with Ecuador. We had done one before with Costa Rica.

AID has the authority to utilize its resources to finance debt for conservation exchanges. I understand that there is considerable private foreign debt owed by the Philippines.

What consideration has AID given to using the MAI or other authority to executing such an exchange in partnership with the local conservation organization in the Philippines?

Is there any discussion going on on a broader basis in terms of AID and the so-called debt-for-nature swaps?

Dr. **Adelman**. Quite frankly, I will have to look into that for you.

I have heard it discussed and I know of a small program recently signed for the Philippines with the World Wildlife Fund. I was unaware of this one in Ecuador.

This was an AID program, was it?

Senator **Kasten**. No; this was outside of AID. But this subcommittee has been working over the past couple of years in trying to encourage the World Bank and AID. The places where we have high debt are also places where we have large tracts of land and rain forests that would qualify for reserve conservation set-aside. Some kind of swap of debt for nature is what we are in the process of trying to develop.

We want to facilitate AID and the World Bank and, frankly, anybody we can find in order to start to work these kinds of swaps.

Let's follow up with that. I have a few more questions on that subject.

Dr. **Adelman**. Let me look into that. I would like to submit something to you on that.

[The information follows:]

AID Debt Swap Policy

AID is developing guidelines for a debt for development initiative which covers the development and execution of debt swaps as part of country assistance programs.

The new initiative permits AID to grant funds to nongovernmental organizations [NGO's] pursuing development objectives in a debt-burdened host country to purchase discounted commercial debt on the secondary market. The NGO would then sell that debt liability back to the host country government in exchange for local currency or other assets.

The purpose of this new initiative is to increase resources which AID and its grantees can use to address key development problems. The net development effect will be to reduce the host country's debt burden while also obtaining local currency resources at an exceptionally favorable exchange rate. The intermediary NGO will then be responsible for managing the use of these resources for purposes approved by AID.

AID has already participated in one dept swap. In that arrangement, the World Wildlife Fund [WWF] was granted $45,000 for a debt for nature swap in the Philippines. WWF allocated an additional $150,000 to the transaction, and with $195,000, purchased $390,000 in discounted Philippine debt on the secondary market. That represents a discount of about 50 cents on the dollar. WWF exchanged this debt with the Philippine Government for its face value in peso. It is using this local currency primarily to help a Filipino NGO, the Haribon Foundation, establish and operate nature preserves around the country.

AID views debt for development exchanges as an extremely useful tool for providing assistance to countries with a secondary market debt, such as the Philippines. We look forward to developing these arrangements in order to maximize the impact of U.S. economic assistance funds.

Senator **Kasten**. We have been writing into the law over the last couple of years ways of giving you enabling legislation so that you can have some flexibility with regard to these kinds of issues.

Let's see if we can pursue that.

Mr. Chairman, thank you very much.

Senator **Leahy**. Thank you very much, Bob.

JAPAN'S ROLE IN FOREIGN AID

One of the subjects we strayed from is Japan's role in foreign aid and in the Philippines specifically.

Can either one of you give me an idea of how you see their role differing from our role? Some of my questions suggest that I see their role as different. But I want to give you a chance to correct me if I am wrong in that, and I mean that seriously.

Mr. **Lambertson**. Shall I begin?

Dr. **Adelman**. Yes; why don't you begin and I will add if necessary.

Mr. **Lambertson**. We see their role in a fundamental sense as being extremely complementary with our own. Japan's essential objectives internationally are compatible with our own.

The kinds of things that Japanese aid attempts to do are the sorts of objectives that our own aid program are pointing to, such as increasing the general level of economic activity and prosperity in LDC's around the world.

They focus much of their aid, more than probably is healthy, on Southeast Asia because that is their back yard. I think something like 70 percent of their ODA goes to Asia. This is a huge amount.

But they are beginning to branch out, and they are beginning to be a major donor in other regions of the world. In Latin America I think they are now second to us. In Africa they are a very major donor. They are beginning also to focus their aid resources more directly on areas that are of strategic importance, such as Pakistan and Turkey.

This is a role that is new for Japan and is one that we think is very beneficial generally.

We would like to see continued progress in areas such as untying their aid. We see some positive trends in that regard. We would like to see them in the Philippines, for example, provide grant assistance, rather than low interest loans.

There are lots of specific areas in which, ideally, the Japanese program could be modified. But, basically, we find it to be a highly constructive and very positive force.

Senator **Leahy**. We have provided food through the Public Law 480. Do the Japanese do anything similar to that?

Mr. **Lambertson**. Commodity loans.

Dr. **Adelman**. No; I don't think so.

We'll have to provide that information for the record.

[The information follows:]

JAPANESE FOOD AID

The Japanese do not provide food aid through a program similar to our Public Law 480 because they do not have surplus food. Japan does, however, provide food as part of its commodity import program.

Because food is not a surplus commodity, the food provided by Japan comes from third countries, including the United States.

We know of three countries in Asia (Bangladesh, India, and Pakistan) where Japan has provided food purchased in the United States.

In fiscal year 1984 through 1987, Japan gave Bangladesh approximately $45 million in wheat and rice, through grants. The breakdown by year and source is as follows:

[In millions of dollars]

Commodity and source	Fiscal year	Approximate value
Burma, Thailand, and Pakistani rice	1984	$14.0
United States wheat; Pakistani rice	1985	12.8
U.S. wheat	1986	8.7
United States wheat ($5.25 million), Thailand and Pakistani rice	1987	10.5

In response to a severe wheat shortage in Pakistan in 1988, Japan gave a loan of $83 million, of which approximately $45 million was used to purchase 248,458 metric tons of United States wheat.

The 1987 drought left India with a need to import 1 million metric tons of edible oil. Japan provided an emergency loan, approximately $150 million to $200 million of which was used to import edible oils. (A portion of this was purchased in the United States.)

HOUSING PROGRAMS

Senator LEAHY. We have had a number of housing programs around the world. Do the Japanese do anything like that?

Dr. ADELMAN. I don't know if they have a program exactly like our Housing Investment Guarantee Loan, but they do have areas where they are going in and doing housing infrastructure, construction. They are involved in that.

Senator LEAHY. We have built schools and medical facilities. Do they do things like that?

Dr. ADELMAN. Yes; they do a lot of infrastructure.

I think one of the big differences is, as our resources gradually have declined worldwide, AID has moved from infrastructure projects into technical assistance and policy reform; whereas the Japanese, because they have such large amounts of money have directed their aid to infrastructure. This has also made it easier for them to tie aid to support of their commercial companies.

Senator LEAHY. Am I correct in my understanding that a lot of it is commercially oriented?

Dr. ADELMAN. A lot is.

Now, we get different estimates on what is untied, too. There are a lot of different ways of measuring this. Their official DAC submission indicates 52 percent of bilateral ODA is untied.

One of the things AID is heavily involved in this month and next is preparing for two conferences, where we are inviting United

States companies and representatives from the Japanese foreign aid program.

We are going to have the Japanese explain their whole process of untied aid, what it is, what they are doing in developing countries, and how do American companies tap into it.

This is because they say that untied aid is available, but that U.S. companies are not taking advantage of it. We want to help U.S. business learn how to do this.

Senator **Leahy**. Once you have had that conference, I would be interested in hearing what you learn because I hear a very different story from some.

Dr. **Adelman**. I carefully said that this is what they say.

Senator **Leahy**. I realize you are not speaking for them.

Dr. **Adelman**. We are trying to find out more on this.

Senator **Leahy**. But you understand my concern because you have heard the same conflicting stories. I would like to hear more of what you get on that.

[The information follows:]

Conferences

Two conferences on Japan's development financing will be held: One in San Francisco on May 10–11, and the second in Orlando on May 15–16. The purpose of the conferences is to provide information to United States firms interested in securing Japanese ODA contracts with basic information about the character and process of Japanese project development and procurement.

The conferences will focus on procurement of both goods and services. It is aimed at United States for profit firms with a proven capacity in international development work, trade associations in related fields, State development agencies interested in promoting international work for their firms, and firms with Japanese experience that might serve as brokers

Japanese businessmen interested in promoting joint ventures will also attend. Several U.S. Government agencies are involved in the planning: AID, Department of State, Department of Commerce, and the Trade and Development Program. Several Japanese Government agencies will also participate and make presentations. We will provide additional information following the completion of both conferences.

PHILIPPINE MULTILATERAL INITIATIVE

Senator **Leahy**. On the MAI, I think we may want to proceed just a little bit slowly here in this committee, until we have a better idea of what the specific responses are to the $200 million.

I realize that we have talked about a 5-year plan that could be turned off at any time. The administration can do that and Congress, of course, can do that when we are dealing with year-by-year appropriations.

But I think before we make the initial payment, we would like to know a little bit more about it.

Mr. **Lambertson**. We will be able, as I say, to provide more specific information when the framework paper is available and as the donor community gets geared up to put this thing into action. I recognize your concern.

Senator **Leahy**. I think this has been a very good hearing. I appreciate any information you give us, and I appreciate your answers to inquiries that you receive from either Eric Newsom or Jim Bond. It is important to us and to me. We are also trying to learn.

I read with interest what you said in your statements, both of you. As I mentioned earlier, your prepared statements will be included in the record. I thank you for coming up.

Dr. **Adelman**. Thank you, Mr. Chairman.

Mr. **Lambertson**. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. There will be some additional questions which we will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

DEPARTMENT OF STATE

ADDITIONAL COMMITTEE QUESTIONS

JAPANESE FOREIGN AID: NOT ENOUGH?

SENATOR LEAHY: Critics of Japanese foreign aid have observed that as a share of GNP, Japan ranks number 14 among the 18 industrial countries and is less than half the United Nations target of 0.7 percent. The fact remains that the United States spends about 6 percent of its GNP on defense while Japan disburses only 1 percent. Clearly, Japan could afford to increase its economic assistance to at least 2-3 percent of GNP. Where would you like to see the Japanese target any additional aid resources?

MR. LAMBERTSON: In recent years, approximately 70% of Japan's bilateral foreign assistance has gone to Asia, with the remainder split roughly evenly between Latin America, Africa, and the Middle East. This administration, like the previous, would like to see a greater proportion of Japanese aid go to those countries who need it most, such as the least developed countries of Sub-Saharan Africa, Latin America and the Caribbean. We would also hope Japan would contribute more to international relief agencies and multilateral development institutions.

SENATOR LEAHY: What can we, as a nation, do to ensure that our calls for an increase in Japanese foreign assistance do not result in uncontrolled market penetration and export competition down the road?

MR. LAMBERTSON: Given that, we can minimize the potential commercial impact of increasing Japanese assistance by continuing to encourage the Government of Japan to untie its assistance, allowing firms from the US and elsewhere to compete fairly for contracts. We can also encourage U.S. businesses to tap into Japan's aid program where possible. In fact, A.I.D. is hosting conferences in May for American businesses on opportunities in Japan's official development assistance program. Further, Japanese aid channeled through multilateral institutions is usually untied. We will continue to urge Japan to contribute generously to these organizations. However, there is no substitute for our own foreign assistance program. Japan will receive credit for the aid it gives, and this will affect the way it is viewed by recipient countries.

CAMBODIAN RESISTANCE

SENATOR LEAHY: Since 1986, our policy in Cambodia has focused on getting the Vietnamese out. There are signs they are leaving. But there are also reports that the Khmer Rouge are stronger than any of the other resistance forces and preparing to try to regain power.

Given the strength of the Khmer Rouge, can there be a successful peace settlement in Cambodia without including them in a future interim government?

MR. LAMBERTSON: This Administration shares fully the strong concern regarding the Khmer Rouge and is unalterably opposed to their return to dominance in Cambodia. We are committed to a settlement in Cambodia which contains safeguards as effective as possible to ensure that the Khmer Rouge can never again subject the Cambodian people to the horrors they have known in the past.

Nevertheless, the precise measures to be adopted remain a crucial area of negotiation among the Cambodian parties and their supporters -- although it is clear that discredited Khmer Rouge leaders, including Pol Pot, should not be allowed to play any role in a future Cambodian government. Ultimately, we believe that only the Cambodians themselves can decide if it is better to include elements of the Khmer Rouge, minus their senior leadership, as part of an interim government or leave the Khmer Rouge on the outside in a final settlement.

SENATOR LEAHY: I'm told Pol Pot is in Thailand. Isn't the solution here going to to depend on what the Chinese are prepared to do vis-a-vis the Khmer Rouge and particularly Pol Pot?

MR. LAMBERTSON: We have discussed with China on a regular basis the need to control the Khmer Rouge in the context of a settlement. I would note that during the last year there has been a significant evolution in China's position regarding the Khmer Rouge. Last July 1, a Chinese statement called for the establishment of a four-party coalition with Prince Sihanouk in charge while Vietnam withdrew, and the imposition of a freeze on Cambodian forces, noting "these forces should refrain from getting involved in politics and interfering in the general election". It asserted that the leaders of each of the factions in the coalition would have to be acceptable to the other factions -- suggesting that Pol Pot and others of his ilk could have no role. In November, for the first time, the Chinese accepted in principle a reduction of military assistance simultaneous with a verified Vietnamese withdrawal.

Based on its public statements as well as our private discussions, we believe that Beijing does not support a return to power by the Khmer Rouge.

SENATOR LEAHY: What would be your reaction to a ban on U.S. funds for UN peacekeeping in Cambodia, unless China and Pol Pot agree that he will not return to Cambodia?

MR. LAMBERTSON: We believe that an acceptable settlement in Cambodia will require international guarantees and safeguards. The key will be a suitably armed international peace-keeping/monitoring force, preferably under UN auspices, to oversee the Vietnamese withdrawal, a cease-fire, a free and fair election process, and other settlement provisions designed to a great extent to help contain the KR.

At the same time, there has been a significant evolution in China's position regarding the Khmer Rouge, with the provisions of China's July 1 statement allowing exclusion of unacceptable leaders of any faction.

Therefore, we think that linking exile for Pol Pot with U.S. funding for an international presence in Cambodia, which we want to help contain the Khmer Rouge, would be seen as contradictory, and possibly would be counterproductive.

SENATOR LEAHY: What role do you see for the U.S. and Japan in helping to rebuild Cambodia if the fighting stops?

MR. LAMBERTSON: Once there is agreement on the basic elements of a Cambodian solution, we expect that a conference will be held to mobilize the international community as a whole -- including the U.S. and Japan -- to guarantee and support the settlement agreement. We, of course, will press for special attention to be paid to its provisions relating to the control of the KR, including the need for an effective international peace-keeping/monitoring presence.

We believe the conference is also the appropriate forum to assess the international community's role in Cambodia's post-settlement reconstruction. The exact assistance mix needed will depend on how the situation evolves and the specific elements of the settlement agreement.

Among other possibilities, we are beginning to consider training programs for Cambodians presently in camps along the Cambodian-Thai border, possibly bringing some of them to the U.S. for training. In addition, we may need to develop programs to train Cambodian-Americans resident in the U.S. who volunteer to return to Cambodia to assist with reconstruction.

We intend to consider the issue of reconstruction assistance, including the most effective types of training programs, as part of the interagency process in the near future. We will be consulting with Congressional leaders as the details of an overall program are developed.

PHILIPPINES: MAI

SENATOR LEAHY: I have heard about the serious problems of soil erosion and deforestation in the Philippines. How much of the MAI, and of our share, would be used to control these problems, and to pay for other programs to protect the environment?

MR. LAMBERTSON: The use of the proposed $200 million as the first year U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines' economic reform program, which is being finalized now, and on discussions with other key donors. We therefore cannot tell you at this time how much will be spent on environmental protection. We do know that the MAI economic program presently being developed does address some environmental concerns, particularly those dealing with deforestation and soil erosion.

It should be noted that the Government of the Philippines is also concerned about the environment. Its new constitution gives explicit recognition to management of the environment and a new Department of Environment and Natural Resources has been established. A.I.D. and the World bank are discussing ways to assist its development and prepare a long-term action plan. In addition, environmental protection and sound management of natural resources is one of the four major thrusts of our bilateral program in the Philippines. We will continue to pursue environmental protection and management as one of the major efforts of our bilateral program.

SENATOR LEAHY: The Philippine population is doubling every 29 years. At that rate, the impact of the MAI will be swallowed up by the huge increased demand for food, shelter and jobs, not to mention the disastrous effect on the environment. How much of the MAI will pay for programs to reduce the rate of population growth? If the MAI is funded as envisioned, what reduction in population growth can we expect?

MR. LAMBERTSON: The use of the proposed $200 million as the first year U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines' economic reform program and discussions with other key donors. The MAI economic program presently being developed gives family planning a high priority. It points out that institutional changes are being made and a medium term plan is in the final stages of preparation.

It should also be noted that the Philippines has had a nation-wide family planning program for the past 17 years. The current program is a combined clinical and community based program which provides full-time outreach workers throughout the country. Our bilateral program supports the Philippines family planning efforts. As of December 31, 1988, A.I.D. had contributed $51 million in support of this effort. We are jointly developing a five year, $40 million follow-on program that is expected to be authorized in this year.

SUBIC BAY AND CLARK AIR BASE

SENATOR LEAHY: The Subic Bay and Clark Base agreement expires in 1991. If the press reports were accurate, getting the interim agreement--which calls for $150 million more than FY 89--wasn't easy. The Philippines made it seem as if we were twisting their arms to keep the bases there. What is the economic value of the bases to the Philippines?

MR. LAMBERTSON: The Philippines receives substantial economic benefit from the presence of the U.S. military facilities. The Philippines expects to receive $481 million annually in "bases-related" compensation in FY 1990 and FY 1991. In addition, we estimate the direct economic flows into the Philippine economy from the presence of the U.S. facilities to be approximately $500 million per year. This sum includes procurement of Philippine products and use of Philippine service contractors, salaries of Filipino employees, and personal spending by military and civilian personnel assigned in the Philippines or there on a temporary basis.

There are also substantial intangible economic benefits. Because of the U.S. commitment to its external defense, the Philippines can devote scarce military resources to combatting the domestic Communist insurgency. The U.S. military presence also enhances the Philippines' image of political stability, thereby increasing its ability to attract needed foreign investment.

SENATOR LEAHY: What security interests do the Philippines have in the bases?

MR. LAMBERTSON: The U.S. military presence enhances the security of the Philippines and the Asia-Pacific region. The U.S. naval presence is also important to protect commercially important sea lanes. Finally, the Armed Forces of the Philippines lacks certain capabilities needed to defend the Philippines in case of external attack. Without the mutual defense arrangements the Philippines has with the U.S., Philippine defense spending would have to increase dramatically.

PHILIPPINES - HUMAN RIGHTS

SENATOR LEAHY: According to my staff, the State Department regards the October 1988 report on the Philippines by the Lawyers Committee for Human Rights as a "good report."

That report says "violations of human rights have risen to alarming levels" in the past two years. In the twelve months before the report was issued, five human rights lawyers were killed. Many others were threatened or harassed. There is evidence of military involvement in many of these incidents.

The report says the Aquino government has failed to respond adequately to human rights abuses. There is "no sustained effort to investigate possible military involvement." Not a single military officer or member of the armed civilian "vigilantes" has been convicted of a human rights violation.

As a former prosecutor, I know that the proof is in the convictions. Without successful prosecutions, there is no justice. How vigorously is the government investigating these crimes?

MR. LAMBERTSON: President Aquino and her government are firmly committed to prosecuting human rights abusers. An ineffective judicial system militates against more vigorous prosecution of these abusers. The U.S Government has been urging reform for the Philippine judiciary and President Aquino has taken some positive steps which we hope will improve the record of convictions. President Aquino has designated as urgent for passage during this session of the Philippine Congress measures to accelerate procedures in military and civilian courts.

While the number of reports of abuses has increased, this does not necessarily mean that abuses have increased commensurately. Increased reports are in part a function of increased public interest in human rights both in the Philippines and abroad, and of decreased fear of reporting human rights violations. Some abuses now being reported are even from the Marcos era.

SENATOR LEAHY: Is it true that no members of the military have been convicted?

MR. LAMBERTSON: No, this is not true. There have been some convictions of military human rights abusers and investigations are ongoing in a number of other cases. As examples, eight members of the Marcos-era Civilian Home Defense Force (CHDF) were convicted in 1987 for the April 11, 1985 murder of an Italian priest. In 1988, a Marine Captain was sentenced by a general court martial to separation and hard labor for the death of Cirilo Matas on May 25, 1985.

SENATOR LEAHY: What about the five human rights lawyers--David Bueno, Vicente Mirabueno, Ramos Cura, Alfonso Surigao, Jr., Emmanuel Mendoza?

MR. LAMBERTSON: The information we have on the five cases you raised follows:

David Bueno -- An investigation was immediately launched after Mr. Bueno's murder but eyewitnesses could not provide descriptions of the gunmen. The investigation by the Commission on Human Rights is still open.

--Vicente Mirabueno -- While some human rights activists believe that the police were involved, the police concluded that Mr. Mirabueno's murder was more likely related to a business quarrel than to his human rights activism. Two suspects have been arrested in the case. One was released for lack of evidence and the other escaped.

--Ramos Cura -- The Commission on Human Rights investigation is still open. Eyewitnesses could not identify the gunmen and no arrests have been made.

--Alfonso Surigao, Jr. -- The self-confessed killer of Mr. Surigao was convicted on February 15, 1989, less than nine months after the murder. He was sentenced to the maximum sentence of life imprisonment and ordered to pay Surigao's heirs 30,000 pesos (approximately $1,500) and litigation costs.

--Emmanuel Mendoza -- Investigators identified and arrested two policemen as suspects who were subsequently charged in civilian courts.

PHILIPPINE PIPELINE

SENATOR LEAHY: The Philippine foreign assistance pipeline is estimated at about $3.825 billion in loans, primarily from Japan, the World Bank and the ADB. In addition, there is approximately $400 million in grants from the United States. The pipeline is continuing to grow, representing the inability of the Philippine Government to obligate and expend the large sums of foreign assistance in a timely and efficient manner. As of last summer, the World Bank estimated that the Philippines would expend $500 million this year. At this rate, disbursement of the entire pipeline would take five to seven years. How can you justify the provision of large sums of additional new aid for the Philippines when the country is unable to absorb previously appropriated funds?

MR. LAMBERTSON: The Philippines utilizes donor assistance at a rate comparable with other countries in the region. There is a significant pipeline in the Philippines, but it must be placed in perspective. All countries with project assistance have a pipeline because it takes four or five years for projects to be completed. Also, disbursements for projects are generally low in the first and second year of implementation. The current donor loan pipeline for the Philippines is estimated at approximately $3.9 billion. The size of the pipeline and the rate of using donor assistance in the Philippines is not unusual compared to other Asian countries. For example, according to the World Bank data, India has a donor loan pipeline of $19.26 billion; Indonesia, $12.26 billion; Pakistan $6.56 billion; and Bangladesh $3.76 billion. Similarly, the rates of donor assistance utilization for Asian countries vary between 14 and 30 percent of the pipeline, with the Philippines about in the middle at 24 percent.

Progress has been made in the Philippines. Disbursements from donor loans increased from $742 million in 1986 to approximately $948 million in 1988. Nevertheless, we have expressed to President Aquino and other senior Government of the Philippines officials our concern about the slow pace of implementing donor programs. The MAI provides a framework for the Government to pursue on a systematic basis new ways to accelerate implementation.

SENATOR LEAHY: What steps are you taking to reduce the size of the pipeline? How do these plans figure in current discussions with the IMF and prospective donors to the MAI?

MR. LAMBERTSON: The Aquino Administration has taken important steps to accelerate project preparation and implementation. A Project Facilitation Committee has been formed to identify bottlenecks and recommend solutions, and a Cabinet-level officer appointed to oversee and monitor implementation of donor projects. More needs to be done. The MAI offers an important opportunity to accelerate this process. The MAI encompasses administrative as well as economic reforms developed in consultation with the IMF, the World Bank, and donors. The MAI will link donor assistance to progress in implementing those reforms. It is a potential instrument to coordinate donor assistance, implement administrative reforms, and improve the utilization of donor assistance.

U.S. MILITARY TOXIC POLLUTION IN THE PHILIPPINES

SENATOR LEAHY: What is the scale and scope of the environmental damage and toxic pollution associated with U.S. Military facilities in the Philippines?

MR. LAMBERTSON: There is minimal, if any, environmental damage or toxic pollution associated with the U.S. facilities in the Philippines. The U.S. facilities have an excellent record. Every effort is made to prevent pollution. If accidents do occur, rapid and complete clean up is made.

SENATOR LEAHY: Does any plan exist for the cleaning up toxic pollution resulting from the U.S. military presence in the country? If not, why not?

MR. LAMBERTSON: Efforts are continually being made to tighten environmental protection standards at all U.S. facilities in the Philippines. There are trained response teams and plans to respond to fuel spills and other potentially polluting accidents at all facilities.

THE QUALITY OF JAPANESE FOREIGN ASSISTANCE

SENATOR LEAHY: It is my understanding that grants make up only 47.5 percent of Japanese foreign assistance, the lowest share of any aid-giving country. Loans make up the rest, and because of the recent appreciation of the yen, it is becoming increasingly difficult for borrowers to repay them. Has the Japanese aid program done more to hurt developing countries by increasing their foreign debt that it has to help them?

MR. LAMBERTSON: Certainly grant aid is usually preferable to loan aid. Nevertheless, Japan's loan assistance provides resources which might not otherwise be available at less than market rates.

SENATOR LEAHY: Is the Japanese government continuing to look into extending debt-repayment grants? If so, when might this program be implemented? What will be its dollar value? Toward which countries will it be targeted?

MR. LAMBERTSON: Recognizing the need for debt relief for the least developed nations, Prime Minister Takeshita announced at the Toronto Summit meeting last June a program whereby Japan would extend grants equivalent to the principal and interest due on its aid loans to a select number of countries. This program, together with an earlier one, will cover loans extended before 1987. The new program was to take effect with the beginning of Japan's fiscal year (JFY) 1989 (beginning April 1, 1989), but may now not begin until the JFY 1989 budget is approved by the Diet. The principal and interest covered by these two programs between JFY 1989 and JFY 1992 is expected to total about $1 billion. Eleven countries are eligible for the existing program: Bangladesh, Burma, Ethiopia, Laos, Malawi, Nepal, North Yemen, Rwanda, the Sudan, Tanzania, and Uganda. These countries will continue to be eligible for relief under the new program, which will also include Botswana, Burundi, the Central African Republic, Guinea, Mauritania, Niger, Sierra Leone, Somalia, and Togo.

MILITARY AID TO THAILAND

SENATOR LEAHY: You have requested a $23 million increase in military aid to Thailand (from $22 million in FY 89 to $45 million for FY 90), at the same time the Vietnamese are withdrawing from Cambodia and the focus is on a political settlement and a possible UN peacekeeping force. What is the increased threat that justifies this 100% increase?

MR. LAMBERTSON: The requested $45 million in FY 90 would, if approved, bring the level of security assistance to Thailand back to that of FY 88 -- itself only half of what it had been three years earlier. Thus we do not consider the $45 million request an increase, but rather a restoration. That level of funding would be sufficient to support Thailand's maintenance of military equipment previously purchased from the United States and to procure spare parts for that equipment. It would also contribute to ongoing major military acquisition programs from the U.S. such as F-16, Royal Thai Air Defense System, TOW, and Harpoon -- although these will be funded primarily from the Thai budget.

While Vietnam has announced the withdrawal of its troops from Cambodia in September 1989, this withdrawal is not a certainty. Also many hurdles remain to be overcome before a comprehensive political settlement and agreement on an international monitoring/peacekeeping force are achieved, much less elections held and a democratically-elected government formed. In the interim, we expect the situation in Cambodia to remain essentially the same -- with a highly volatile security situation inside the country and along the Thailand-Cambodia border and a continued flow of displaced Khmer onto Thai soil. Given the complexity of the Cambodian situation and the fact that the security threat to Thailand is not expected to diminish appreciably in the short to medium term, U.S. security assistance to Thailand in the amount requested is considered entirely appropriate.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

ANTI-AMERICANISM AT THE ASIAN DEVELOPMENT BANK

SENATOR INOUYE: There are continuing allegations that the Japanese president of the Asian Development Bank has supported hiring and procurement policies that are directed at reducing, wherever possible, U.S. influence in the Bank.

What success have you, and our representatives at the Bank had, in countering the alleged anti-Americanism of the Japanese ADB President?

MR. LAMBERTSON: The Asian Development Bank has played a positive role in the development of the region. We of course have concerns in a number of policy areas, including Bank support for market-oriented economic policy reform in borrowing countries, expansion of the role of the private sector in ADB programs, and improved loan quality.

Regarding the hiring policies of the ADB, American and Japanese professionals are represented on the staff in equal numbers, although we feel Americans are underrepresented at the more senior levels of the Bank. We continue to express our interest in having competent Americans fill Bank positions as they come open, and we are willing to assist in finding qualified American personnel.

President Fujioka recently announced that he is resigning as ADB president, effective November 24. The presidency of the ADB is a prestigious position and we are looking forward to working with President Fujioka's successor on the issues that concern us. ADB staffing procedures will be a top U.S. priority in our discussions with Mr. Fujioka's successor.

SENATOR INOUYE: What role do you see the ADB playing in helping to promote sustainable growth in East Asia ?

MR. LAMBERTSON: We believe the ADB can use its assistance process to require market-oriented economic policy reforms in borrowing countries necessary to their long term development. The ADB has begun to prepare country strategies, which set out the ADB's general policy reform goals in individual countries, and recent program loans that have contained strengthened policy conditionality. In addition, we are encouraging the ADB to find ways for its activities to enhance development of the private sector.

Protection of the environment is also critical for the long run growth prospects of the developing countries of Asia, and we are generally pleased with the Bank's work in encouraging environmentally sound policies and in seeing that ADB projects themselves are environmentally sound.

JAPANESE MEGA-PROJECTS AND TIED AID

SENATOR INOUYE: The Japanese development assistance budget is dominated by capital projects -- such as dams and power stations -- that long ago lost favor in the aid programs of other countries. We spend 2.3 percent of our aid money for such projects; Tokyo spends 45.8 percent. No doubt Japan persists in capital-intensive projects because such projects require earthmoving equipment, machinery and other goods and services that Japanese companies can provide. What percentage of Japanese foreign assistance is tied aid? What is the trend?

MR. LAMBERTSON: According to the statistics of the Development Assistance Committee (DAC) of the OECD, in 1987 65 percent of Japan's total official development assistance disbursements was fully untied. In 1980, 53 percent was untied.

SENATOR INOUYE: Do the Japanese continue to rely, almost exclusively, on Japanese firms to conduct feasibility studies for projects they finance? Is there any indication they are prepared to open up the feasibility process to increased numbers of American companies?

MR. LAMBERTSON: To a large extent, consulting and engineering services are tied to Japan, even though procurement of other material or services for a given project may be untied. Japan undertook last year to gradually untie this key sector, pledging to untie consulting and engineering services in the Philippines, Malaysia, Korea, Papua New Guinea, Thailand and Egypt by 1990.

SENATOR INOUYE: Are there any Japanese aid practices which you feel the United States should adopt?

MR. LAMBERTSON: Japan is a relatively new foreign assistance donor which looks to the U.S. for expertise on development assistance. Nevertheless, Japanese aid is not earmarked, which allows Japan to respond flexibly to changing circumstances. Also, Japan enjoys a steadily increasing aid budget. While recognizing we do not have the luxury of increasing budgets, more flexibility in the allocation of our scarce resources might better serve U.S. interests.

JAPANESE ADMINISTRATION OF FOREIGN AID

SENATOR INOUYE: Japan will overtake the United States as the largest aid donor in the next year or two. It has promised to provide $50 billion in foreign aid over the next five years, at the same time that U.S. aid levels are declining. With only a small foreign aid bureaucracy, how will the Japanese administer such a massive program? What role can we play in directing their efforts?

MR. LAMBERTSON: This issue is also of concern to the Government of Japan. It has proposed a modest increase in staff in its next budget. In the Philippines, we are working closely with Japan and others as the Multilateral Assistance Initiative (MAI) takes shape. The MAI, which will set the framework for foreign assistance to the Philippines, including Japan's, may prove to be a useful model for similar collaborative efforts elsewhere. We also discuss specific requirements of specific countries with Japan as the need occurs. A significant portion of Japan's assistance is in the form of cofinancing with international financial institutions, which requires less staff time than other types of assistance.

JAPANESE FOREIGN AID

SENATOR INOUYE: Recently, Japanese officials announced that the government's foreign-aid budget will rise by only 1.6 percent this year, considerably less than the 7.8 percent increase that they publicized before Prime Minister Takeshita visited Washington in February. The rise in Japanese aid is slightly more than half of the 2.5 percent increase requested by President Bush for FY 1990. Why have the Japanese dramatically lowered their offer of development assistance in FY 1990 after reaping a public relations bonanza during Prime Minister Takeshita's Washington visit in February?

MR. LAMBERTSON: Japan has not changed its plans to increase its foreign assistance this fiscal year. The admittedly confusing figures you cite are the result of the way Japan budgets its foreign assistance. The General Account Budget, which is the amount the government will spend for its foreign assistance, is indeed proposed to increase 7.8 percent (Japan is currently operating under a continuing resolution). However, the amount of money actually available for foreign assistance, the "operational basis" budget, is the total of the general account budget and the Fiscal Loan and Investment Program (FLIP). FLIP consists primarily of funds borrowed from government-control accounts, such as the postal savings system, and must be repaid at commercial rates. The operational basis budget is expected to increase by only 1.6 percent this fiscal year.

SENATOR INOUYE: What effort are you making to convince the Japanese that should (sic) take a larger responsibility in the foreign aid field in partial compensation for low defense spending?

MR. LAMBERTSON: Foreign assistance is recognized by both the Administration and the Japanese to be a way Japan can contribute to global peace and stability. We include the need to further increase foreign assistance every time we discuss burden sharing with Japanese officials.

PHILIPPINE VIGILANTE VIOLENCE CONTINUES

SENATOR INOUYE: According to reports I have received, vigilante violence continues unabated in the Philippines, despite claims by the Government that progress is being made to curb military-backed human rights abuses. Since January, the Christian Urgent Action Network for Emergency Support (CUANES), has received notice from Task Force Detainees of the Philippines of five cases of abuse allegedly carried out by members of Citizens Armed Forces Geographical Units (CAFGU) -- apparently, another name for the para-military vigilantes. If, as our Government seems to believe, the Philippine Government is vigorously investigating such abuses, why has there only been one conviction of a lower level member of the country's military over the last several years?

MR. LAMBERTSON: Military and civilian human rights abusers are being prosecuted for human rights violations. CAFGU members are subject to military discipline and are prosecuted in military courts for infractions. Some convictions have already been obtained and many investigations are being vigorously pursued. For example, eight members of the Marcos-era Civilian Home Defense Force (CHDF) were convicted in 1987 for the April 11, 1985 murder of an Italian priest. In 1988, a Marine Captain was sentenced by a general court martial to separation and hard labor for the death of Cirilo Matas on May 25, 1985.

Prosecutions of alleged human rights abuses are often stymied by the inefficient Philippines judicial system. Inadequacies in staffing, training of judges and staff, resources for investigations, and a system of non-continuous trials all militate against obtaining rapid convictions.

The U.S Government has urged reform of the Philippine judiciary. President Aquino has taken some positive steps which we hope will improve the judiciary's record of convictions. President Aquino has marked as urgent for passage during this session of the Philippine Congress measures to accelerate military and civilian judicial procedures. A Supreme Court Administrative Order which directs 83 courts to introduce continuous trials went into effect February 3 on a trial basis. (Trials using non-continuous procedures take an average of three years to be completed.) President Aquino has shifted some human rights cases against members of the Armed Forces from military to civilian courts. She also has ordered speedy prosecution and disposition of graft and human rights cases against government officials, including military personnel.

Difficulties in investigating human rights abuses are compounded by the problem of witnesses unwilling to testify because they fear reprisals. To counter this, the Commission on Human Rights initiated a witness protection program.

The U.S. Government will continue to closely monitor the situation to determine if these reform efforts are having the intended effect.

PHILIPPINE ARMED FORCES GEOGRAPHICAL UNITS (CAFGU's)

SENATOR INOUYE: Last year President Aquino ordered the disbanding of vigilante groups in the Philippines. In their place she authorized the creation of Armed Forces Geographical Units, or CAFGU's, a para-military militia trained by the military and under military control. Human rights groups insist that the CAFGU's are merely the old vigilante groups in a new incarnation. Do you have any reason to believe that this assessment of the CAFGU's is incorrect?

MR. LAMBERTSON: The CAFGU's, which differ from the now-disbanded "vigilante" groups in five principal ways, were designed to prevent the human rights abuses in which their predecessors engaged.

- o CAFGU members are drawn from the geographical areas in which they will operate.
- o Military unit commanders screen potential CAFGU members in consultation with local civilian officials and civic and business leaders. Local peace and order councils, which consist primarily of civilians, recommend candidates to local military unit commanders.
- o The Armed Forces of the Philippines (AFP) trains CAFGU members.
- o The AFP directly supervises and controls the CAFGU's.
- o CAFGU members are subject to military discipline.

SENATOR INOUYE: What type of professional military and human rights training are the CAFGU's given?

MR. LAMBERTSON: Ideally, members of the CAFGU's undergo approximately five weeks of basic training at a military installation. Training consists of three modules -- weapons, tactics and general military subjects. The latter consists of 19 subjects which includes civics and human rights, organization of the AFP, hand-to-hand combat, map reading, and CAFGU rules and regulations. The civics and human rights portion deals with civilian-military relations, the proper treatment of civilian persons and property, the handling of suspects and prisoners, constitutionally guaranteed individual rights, and a brief on Defense Secretary Ramos' instructions to all field commanders requiring them to adhere to the Government's policy on human rights. Since these CAFGU's have only been recently formed, it is not possible to know how complete their training will be in practice.

SENATOR INOUYE: Are any United States civilian or military personnel, directly or indirectly, involved in training the CAFGU's?

MR. LAMBERTSON: U.S. civilian or military personnel are not involved in training the CAFGU's. Many Filipino AFP trainers have received some training in the U.S. and U.S. military manuals are often used.

SENATOR INOUYE: What is the amount and type of U.S. security assistance, directly and indirectly, being used by the Philippine's Government to support the CAFGU's?

MR. LAMBERTSON: The Philippine Government equips CAFGU's out of the normal military supply system. Therefore, unknown quantities of equipment -- boots, uniforms, medicines, and other items -- which the U.S. provides the AFP under security assistance are used to outfit CAFGU's. Many weapons used by CAFGU's are old AFP supplies which have been replaced by more modern weapons.

The United States has been asked to provide approximately 154,000 M1 and M2 carbines and rifles for use by CAFGU's. These weapons are provided on an "as is" basis, are frequently in poor repair, and can be used only for spare parts. As of April 1989, 20,100 carbines and 39,000 rifles have been delivered.

PHILIPPINE MAI FUNDING ALLOCATION PLAN

SENATOR INOUYE: I understand that current plans for the Philippine MAI call for 60 percent of the available funds to be used for sector development and projects, with 40 percent being directed toward policy-based reform. What performance targets are you seeking in exchange for the assistance you expect to provide?

MR. LAMBERTSON: The MAI is an international effort that will help and encourage the Government of the Philippines to develop and undertake a comprehensive economic and administrative reform program aimed at restructuring the economy. Donor assistance will be based on a Government of the Philippines economic and administrative reform program; disbursements will be linked to progress in implementing that program. Many of these reforms are already specified in the recently concluded agreement with the IMF. The MAI will build on this foundation, supporting reforms which reduce governmental interference in the economy, streamline procedures and improve the efficiency of the public sector.

The objective of the MAI is to restructure the Philippines economy to achieve sustained, broad based growth led by the private sector. The focus of this effort, therefore, is on the private sector. In addition, a central element of the Government of the Philippines' reform program is the improved efficiency of the public sector. This includes successful implementation of their privatization program, reducing public sector deficits, and continued progress in decentralization of government responsibilities.

SENATOR INOUYE: What economic assumptions underlie your analysis?

MR. LAMBERTSON: The Philippine economy has grown by over 6 percent during 1987-88, and unemployment and underemployment are progressively declining. The strategy now is to move from economic recovery to sustained, broad-based economic growth.

To sustain growth, the efficiency of both the public and private sector must be improved, while insuring equitable distribution of the economic benefits. Further policy reforms are necessary in such areas as trade policy, agrarian reform, privatization, decentralization, and tax reform. The Philippines requires donor assistance to finance its development efforts as the growth process accelerates, especially as the debt burden limits access to foreign resources and low levels of domestic consumption constrain domestic savings efforts.

PHILIPPINE BASES

SENATOR INOUYE: Last September U.S. and Philippine negotiators agreed on terms for the continued operation of Clark airfield and Subic Naval base for the next two years. The Accord provides $481 million in U.S. compensation in 1989 and 1990, up sharply from the $180 million per year previously paid for use of the facilities. What do you estimate the economic value of these facilities to be for the Philippines?

MR. LAMBERTSON: The Philippines receives substantial economic benefit from the presence of the U.S. military facilities. In addition to the $481 million the Philippines expects to receive annually in "bases-related" compensation in FY 1990 and FY 1991, we estimate the direct economic flows into the Philippine economy from the presence of the U.S. facilities to be approximately $500 million per year. This sum includes procurement of Philippine products and use of Philippine service contractors, salaries of Filipino employees, and personal spending by military and civilian personnel assigned in the Philippines or there on a temporary basis.

In addition, there are substantial intangible economic benefits. Because of the U.S. commitment to its external defense, the Philippines can devote scarce military funding to combatting the domestic Communist insurgency. The U.S. military presence also enhances the Philippines' image of political stability, thereby increasing its ability to attract needed foreign investment.

SENATOR INOUYE: Would the withdrawal and redeployment of U.S. forces from the Philippines represent a cheaper alternative for the United States than the continued cost of both annual foreign assistance expenditures plus the MAI over the next five years?

MR. LAMBERTSON: Alternatives to the facilities in the Philippines clearly would be costly, particularly given the initial outlay required to expand existing facilities or build new facilities in the region. Precise cost figures for various basing alternatives are still being studied by the Department of Defense.

MANILA'S SMOKEY MOUNTAIN

SENATOR INOUYE: I recently saw a news report concerning a trash dump known as "Smokey Mountain" which is located on the outskirts of Metro Manila. What is the estimated size of the population living within the confines of Smokey Mountain?

MR. LAMBERTSON: Manila city officials estimate that 21,000 people live in the Smokey Mountain area in 2,500 shanties.

SENATOR INOUYE: What is the estimated per capita income?

MR. LAMBERTSON: Each worker on Smokey Mountain earns an estimated 30 pesos per day. With roughly 3.3. workers per household, per capita income per year for each of the 21,000 persons is approximately 3,500 pesos, or 164 U.S. Dollars.

PHILIPPINES: CONFUSED POLICY ON ECONOMIC GROWTH

SENATOR INOUYE: Over the years, United States bilateral development programs have tried to stimulate economic growth. It is my understanding that this policy underlies the Administration's FY 1990 foreign aid request of $55 million in development assistance, $160 million in ESF, and $200 million for the new multilateral assistance initiative (MAI). At the same time, in its negotiations with the Philippines over a $1.3 billion in standby conditions, the IMF is pressing for a reduction in the country's growth rate below its target of 6.5 per cent. In FY 1990, the Administration also is requesting an additional $150 million in new money to support the IMF. Please explain this obvious contradiction in policy. If we are for Philippine economic growth, why are we supporting IMF policies which run contrary to that objective?

MR. LAMBERTSON: There is no contradiction in policy. The IMF program recently negotiated with the Philippine Government envisions a real GNP growth rate of 6.5 per cent per year through 1992. This is the growth rate previously targeted by the Philippine Government.

SENATOR INOUYE: What are you doing to resolve this policy morass? Are discussions underway with the IMF and the Philippines? If so, will the issue be resolved before this Subcommittee marks up its FY 1990 bill?

MR. LAMBERTSON: We see no policy problems since the IMF and the Government of the Philippines have agreed on the previous Philippine growth target of 6.5 per cent per year.

PHILIPPINES: MULTILATERAL ASSISTANCE INITIATIVE (MAI)

SENATOR INOUYE: The Administration has argued that if the United States chooses not to support the MAI by appropriating the necessary funds, then the Japanese will not take the lead and the program will die. Yet, it is the United States which is experiencing a severe budget deficit, not the Japanese. Why have you chosen not to make the MAI a burdensharing issue in the same way that the Administration has argued for Japanese military burdensharing in the Pacific?

MR. LAMBERTSON: The MAI is definitively burdensharing. The cost is being shared by the international donors to transform the Philippine economy over a five-year period so that it can sustain itself and provide a reasonable standard of living for its people. The MAI is an international effort initiated, organized, and shaped by the U.S. that will help and encourage the Government of the Philippines to develop and undertake a comprehensive economic and administrative reform program aimed at restructuring the Philippine economy. A US Government financial commitment of $200 million will allow us to organize the MAI, encouraging increased assistance from other donors, as well as Government of the Philippines policy reforms. Without this US commitment, the MAI is likely to collapse.

COMMITTEE REPORT ON PHILIPPINE VIGILANTE VIOLENCE DUE

SENATOR INOUYE: On April 30 you are to provide this Committee with a report on Philippine vigilante violence as required in Conference report 100-983 on the FY 1989 foreign assistance bill. Can we expect this report on time?

MR. LAMBERTSON: Yes, it will be submitted on time.

SENATOR INOUYE: Have you actively sought the advice and cooperation of private human rights advocacy groups, looked into their allegations of abuse by the military, and made use of their information in your analysis?

MR. LAMBERTSON: We have discussed these issues at great length with private human rights advocacy groups in both the Philippines and in the United States. Their interest and concern are very much appreciated and are reflected in the attention we give to the human rights situation in the Philippines. Our Embassy in Manila examines the individual cases which they bring to our attention. Their concerns are reflected in the enquiries U.S. officials make with the Philippine Government regarding human rights issues.

SENATOR INOUYE: Please give us a preliminary summary of your feelings as to the extent of the vigilante problem and steps being taken by the Government of the Philippines to bring it under control. Are you satisfied with the Government's effort so far?

MR. LAMBERTSON: The centerpiece of the Philippine Government's policy to end abuses by armed citizens' groups is the newly formed militia -- the Citizen Armed Force Geographic Units (CAFGU's) -- and Civilian Volunteer Organizations (CVO's). All other armed citizens' groups are to be disbanded.

The CAFGU's are subject to government guidelines designed to end abuses. Since deployment of CAFGU's and the abolition of other armed groups is incomplete, it is too early judge the ultimate effectiveness of the Government's efforts. Nevertheless, we are encouraged by the Government's policies and are hopeful that they will bring to an end abuses by armed citizens' groups.

BANGLADESH DISASTER RELIEF EQUIPMENT

SENATOR INOUYE: I understand that Bangladesh has approached our Government for disaster relief equipment and asked that it be provided through the military. Their request includes such non-lethal items as: small supply boats, utility helicopters, road building equipment, floating bridges, water purification plants and field hospitals. Time and again, the Bangladesh military has demonstrated its ability to deliver both medical and materiel assistance to the country's citizenry, and during the recent floods served as the principal vehicle for humanitarian relief reaching outlying rural areas. Do you support the Bangladesh request?

MR. LAMBERTSON: The Department of Defense (DOD) has worked closely with the Bangladesh Government (BDG) for the past two years to provide Bangladesh with disaster relief equipment through its excess property program. The State Department and the Agency for International Development (A.I.D.) support these efforts. Following the flood disaster in the summer/fall of 1988, DOD and A.I.D.'s Office of U.S. Foreign Disaster Assistance (OFDA) provided relief supplies to Bangladesh which included rubber rafts, medical supplies, blankets, portable water purification systems and plastic pipes. (A fuller list of items is attached at Tab 1.)

DOD's Office of Humanitarian Assistance has received a detailed request list from the military attache at the Bangladesh Embassy in Washington. DOD is able to provide available items under Sec 2547 of Title 10 USC. DOD explains that its excess property program is by nature and by law a supply system. It is unable to pull automatically from off the shelf the items requested in any given country's submitted list. Before excess equipment can be donated to a foreign government, it must be declared excess by the DOD component that owns it and survive a 21-day screening period when item managers can claim it for DOD purposes. Upon expiration of the 21-day period the DOD Humanitarian Assistance program can claim property for foreign recipients. Some excess items on the Bangladesh list are being identified and prepared for shipment. Other items such as helicopters, some of the roadbuilding and water purification equipment will probably not come into the excess system in a condition that will allow utilization.

SENATOR INOUYE: If so, what are you doing to respond to the Bangladesh request in a timely fashion?

MR. LAMBERTSON: Current items recently offered to Bangladesh by DOD include those listed below. (DOD has not yet received an affirmative answer on the cranes and the arc welders.)

-- Two shallow draft landing craft for rescue use and food delivery during flood periods. The boats were declared excess property by the U.S. Navy in Yokosuka, Japan and repaired, including installation of new engines, by the DOD Humanitarian Assistance Office. They are presently scheduled for shipment to Dhaka on May 10 from Yokohama, Japan aboard a Bangladesh freighter. This shipment will be cost free to the U.S. Government.

-- 2 cranes: one 25-ton capacity and one 50-ton capacity.

-- 2 arc welders: one in good condition, the other is being offered as spare parts.

The DOD Humanitarian Assistance Office has located several Caterpillar road graders in California and the Pacific region. At least six will be offered to the BDG if they are not claimed by the item manager for another DOD component during the 21 day period.

SENATOR INOUYE: Please provide this Committee with a timely assessment of Bangladesh's request, the estimated cost of the package, and the availability of the requested materiel within U.S. Government stocks.

MR. LAMBERTSON: DOD has sent all Bangladesh requests to the Defense Reutilization and Marketing System in Battle Creek, Michigan for screening. As items become available in the United States or the Pacific region, they are shipped to Odgen, Utah or Okinawa until there is a sufficient quantity to constitute a shipment. Section 2547 of Title 10 USC authorizes donations of non-lethal excess supplies without cost to the recipient country. The costs incurred by the U.S. Government derive from shipping costs under the authority and appropriations contained in PL 100-456 sec. 303 and PL 100-463 Title II. The above noted authorities allow use of $3 million of the $13 million appropriated for transportation costs for all countries (except Afghanistan, which has $10 million earmarked for it). In FY 1989 we project shipping costs for DOD excess property to Bangladesh to be $371,000.

MEMORANDUM FOR AMBASSADOR KAHN 23 SEP 1988

SUBJECT: Summary of DOD Relief Assistance to Bangladesh

As you know, the Department of Defense has been actively involved in supporting the relief operations of the United States Government in Bangladesh.

On August 19, 1988, a DOD funded C-141 landed in Dhaka carrying excess property for use during the present flooding disaster. The following cargo was offloaded and turned over to the U.S. Ambassador for transfer to your Government.

Item	Quantity
Litters	378 each
Sleeping Bags	178 each
Trousers	145 each
Blankets	2,265 each

Life Raft	1 each
Sleeping Mats	1,412 each
Pad, Absorbable	528 each
Mask, Oxygen	18 each
Rubber Rafts	16 each
Medical Supplies	6 skids

A second airlift landed in Dhaka on September 12, 1988 carrying relief supplies from the AID Office of Foreign Disaster Assistance. This C-5 airlift was funded by OFDA and the commodities on board were from OFDA stocks, identified as follows:

Item	Quantity
Plastic Sheeting	850 rolls = 2,210,000 sq ft
Plastic Water Jugs	10,010
Water Storage Container (3,000 gal capacity)	26
Portable Water Purification Systems (24,000 gal per/hr)	2
Plastic Pipe Flexible	5 crates

The C-5 aircraft carried a United States Government survey team headed by Mr. Jay Morris, Acting Administrator of AID and President Reagan's personal representative. Included on that team were two representatives from the US Pacific Command whose assignment was to review possible training projects for US engineer teams once the flooding subsided.

On September 19, 1988 a third DOD aircraft landed at Dhaka. This C-141 was funded by OFDA, but carried cargo from both OFDA and DOD excess stocks at Okinawa. The OFDA stocks consisted of water purification supplies, rescue boats and shelter supplies. The DOD excess stocks on board were as follows:

Item	Quantity
Cots	66
Medical Kits, Type C	6
Medical Kits, Type A	30
First Aid Kits	2
Sterilizer, Pressure Cooker, for Dressings	7
Sterilizer, Boiling Type for Instruments	6
Sterilizer	1
Alcohol	3 cartons
Suction/Pressure Apparatus	2

Item	Quantity
Bandages	3 cartons
Compress Bandages	20 cartons
Compress Bandage Gauze	8 cartons
Dressing, First Aid	2 cartons
Plastic Sheets	1 carton
Adhesive, Plastic Surgical	1 carton
Field Operating Table	4
Water Can, Drinking	10
Water Tank	1
Water Pump	1
Generator Set	1
Generator	1
Generator Panel	1
Plaster of Paris, Impregnated	1 carton
Surgical Instrument Stand	5
Tarps	12
Shelter halves	19
Blankets	40

I trust this information will be useful to you. I have asked the DOD Director of Humanitarian Assistance to continue searching for rubber boats and other excess commodities that will be helpful to your people and your government.

vR/ Rich
Armitage

RICHARD L. ARMITAGE
Assistant Secretary of Defense
International Security Affairs

U.S. BUSINESS COMPETITITVENESS IN ASIA

SENATOR INOUYE: We hear a great deal these days about the inability of American business to successfully compete with the Japanese, Koreans, and other developed East Asian nations in their home markets. One reason often given for this is the failure of our universities and research institutions to adequately prepare our businessmen for the challenges posed by the Eastern marketplace.

Do you see a need for training programs which would educate American businessmen and women in the marketing, finance, procurement, and advertising skills specific to the Pacific region? If so, what contribution might the Agency for

International Development make toward this objective? What resources are you prepared to direct toward this effort?

MR. LAMBERTSON: We share your concern about the need to enhance American businesses' ability to compete in East Asian markets. While our exports to East Asia have increased sharply in recent years (i.e., up almost 38 percent in 1988), much more needs to be done. The newly-created White House Competitiveness Council is coordinating the federal government effort to explore ways in which we can work with the American private sector to improve our overall performance in this regard. An increased emphasis in American universities and research institutions on programs related to the business, scientific, and cultural environment in East Asia could contribute to this national effort. To these ends, the Government of Japan has donated $4.8 million to the National Science Foundation for Japanese language training and placement of about 100 U.S. post-doctoral researchers in Japanese laboratories. Several other new programs to place researchers in Japanese Government sponsored research programs are also in the works.

In the area of business training programs, we in the federal government are using our limited resources to assist the American private sector in its export promotion efforts. The Department of Commerce, which has the lead in this area, holds regular seminars at its district offices around the United States to provide guidance to American businessmen and women interested in expanding their activities in East Asia. Its Foriegn Commercial Service officers based overseas also meet regularly with American business personnel to suggest the best ways to gain access to these rapidly growing markets. The State Department plays an active role in supporting this commercial effort through similar briefings at the Department in Washington and at our embassies overseas, and by conducting commercial promotion programs at those overseas posts where the Foreign commercial Service is not present. The Agency for International Development also plays an important role in this area, primarily through its Private Enterprise Bureau and its Trade Development Program, in seeking ways to enhance the American business competitiveness in the region.

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

COMMERCIAL USE OF ASSISTANCE

SENATOR DECONCINI: In 1988, Japan budgeted $10 billion for foreign aid, thereby displacing the United States as the world's most generous donor. It is my understanding that most of this aid comes with strings attached, many of which serve to expand markets for Japanese goods in those countries. How much, if any, of our aid is tied in this manner?

MR. LAMBERTSON: On a disbursement basis, Japan is not likely to overtake the United States as the world's most generous donor until the end of this year. Nevertheless, according to statistics of the Development Assistance Committee (DAC) of the OECD, nearly 40 percent of our total official gross disbursement of assistance was directly tied to US-sourced procurement. This compares to only 14.5 percent for Japan's gross disbursements over the same period.

SENATOR DECONCINI: Do you think it would be wise for us to expand our export markets this way?

MR. LAMBERTSON: No. The prime objective of foreign assistance should be development. As development occurs, markets should grow and the opportunities availble to U.S. and other exporters should increase. The thrust of our international economic policy is to encourage a free and open trading system.

NEED FOR THE MULTILATERAL ASSISTANCE INITIATIVE

SENATOR DECONCINI: After 20 years of misrule by President Marcos, the Philippine economy is finally beginning to rebound. In 1988 the GNP grew 6.7%, unemployment fell, consumer spending was up, and agriculture was up 3.4% despite several destructive typhoons. Based on these figures, it would appear that the Philippines is well on its way to economic recovery and therefore does not require as much economic assistance from the United States. However, your FY90 request does not reflect this. In fact, the total assistance request for FY90 is more than twice as much as the FY89 estimate, and includes $200 million in Special Assistance Initiatives to "nurture economic growth." Does it not defy logic for us to give a country money when they need it less? How can you justify this request?

MR. LAMBERTSON: The MAI is required to assure sustainable and broadly based economic expansion in the Philippines. The current healthy growth in the Philippine economy is based on renewed business confidence, strong commodity prices and economic reforms implemented by the Aquino Government. However, the country still faces a heavy debt burden, inadequate infrastructure and anticipated financing gaps in coming years. The recently agreed IMF program identifies annual financing gaps of $750 million, beyond expected, but not assured, large increases in private financing. With the financial support provided by the MAI, growth targets above 6% are realistic. Without MAI funding and the economic reforms it will support, growth would likely decline significantly, potentially undermining stability and democracy.

U.S. MILITARY FACILITIES IN THE PHILIPPINES

SENATOR DECONCINI: In exchange for base rights at Clark Field and Subic Bay through 1997, the United States will provide $481 million in military and economic aid for the remaining years of the agreement--up from $352 million in 1988. This agreement came only after months of tough negotiations that left both sides with ill feelings towards each other. Is there any way we can begin working now on tying more of our aid to base rights in the future in order to prevent this problem from surfacing once again?

MR. LAMBERTSON: In connection with the 1988 review of the Military Bases Agreement, the President made a best efforts commitment to provide during the last two years of the fixed term of the MBA $962 million in a combination of military and economic assistance. In addition to this bases related assistance, the Administration has requested $200 million for FY90 as the initial U.S. contribution to the Multilateral Assistance Initiative (MAI). The MAI is in no manner connected to our military presence in the Philippines. It is a multilateral program to ensure the future of democracy in the Philippines by promoting economic reforms and growth.

HUMAN RIGHTS

SENATOR DECONCINI: Apparently in an effort to bolster her support among the armed forces, President Aquino has toned down her rhetoric concerning human rights abuses by the Armed Forces of the Philippines. Has this reduction in rhetoric resulted in an increase in human rights abuses?

MR. LAMBERTSON: President Aquino continues to be a strong and consistent supporter of human rights, both by her words and deeds. In December, she strongly reaffirmed her Government's commitment to human rights and her determination to take stronger steps to ensure respect for them among all people, including the military. President Aquino shifted some human rights cases against members of the Armed Forces from military to civilian courts. Secretary of National Defense Ramos has directed that military commanders be held responsible for violations by their subordinates and ordered that human rights records be an important consideration in military promotions. Training of military personnel now places greater emphasis on the respect for human rights.

SENATOR DECONCINI: What can we do to ensure that human rights are observed in the Philippines?

MR. LAMBERTSON: We share your concerns regarding human rights issues in the Philippines. Our Embassy officers in Manila continually monitor the human rights situation in the Philippines, and raise U.S. concerns in meetings with Philippine Government and military officials. But the Communist insurgents are responsible for most of the human rights violations in the Philippines.

Respect for human rights in the Philippines has vastly improved under President Aquino's Administration. When President Aquino assumed power, she moved rapidly to release political prisoners, remove media controls, restore democratic institutions, and hold free and fair elections for a new Congress and thousands of local officials. The Government has largely implemented the 1987 constitution's provisions on political, social, and civil rights.

The vast majority of human rights violations in the

Philippines are related to the Communist insurgency and government efforts to counter it. Human rights abuses committed by some members of the military and police are in violation of government policy.

We will continue to support President Aquino's reform efforts. Revision of an ineffective judiciary is a top priority. The U.S. and the Philippines signed an agreement for a USAID sponsored program to encourage judicial reform. Several other cooperative programs for judicial reform are under consideration.

SOVIET-PHILIPPINE TIES

SENATOR DECONCINI: In late December, Soviet Foreign Minister Eduard Shevardnadze visited Manila. This visit came at a time when the Government of the Philippines seemed intent on following a nonaligned foreign policy. Did any agreements come out of this visit? Was this development considered in the FY90 request?

MR. LAMBERTSON: No agreements came out of this visit. The Philippine Government and Foreign Minister Shevardnadze issued a joint statement at the visit's conclusion. The visit was made at the initiative of the Soviet Union and was part of a series of visits to other countries of Southeast Asia.

The Philippines does not follow a nonaligned foreign policy. The Philippines is firmly committed to remaining a close and trusted ally of the United States.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

SITUATION IN CAMBODIA

SENATOR KASTEN: We are all anxious to know what the U.S. position will be on the various efforts to establish a popular supported government in Cambodia once the Vietnamese have departed.

While I would like to ask you to comment on the current situation with respect to this question, I want to mention that it is important that you understand the feeling in Congress concerning support for any arrangement which includes Pol Pot and the Khmer Rouge. I believe that I can tell you without any contradiction from anyone that there will be no support from any quarter here for an arrangement which includes the perpetrators of what has become known as the "killing fields" of Cambodia. That said, I would like your assessment of the current situation.

MR. LAMBERTSON: This Administration unalterably opposes a Khmer Rouge return to dominance. An acceptable, durable settlement must contain effective measures to ensure the Khmer Rouge can never regain control and subject the Cambodian people again to the horrors of the past.

While the precise measures to be adopted remain a crucial area of negotiation among the Cambodian parties and their supporters, it is clear that discredited Khmer Rouge senior leaders, including Pol Pot, should not be allowed to play any role in a future Cambodian government.

We realize that only the Cambodians themselves can decide if it is better to include elements of the KR, minus their senior leadership, as part of an interim government or leave the Khmer Rouge on the outside in any final settlement. Prince Sihanouk argues that the Khmer Rouge can be better controlled in a government rather than in the jungles.

However, we are making it clear to all parties that our support for future Cambodian governments will be related to the level of Khmer Rouge participation in those governments.

PHILIPPINES HUMAN RIGHTS VIOLATIONS

SENATOR KASTEN: As you know, concerns expressed over reports of alleged human rights violations by the Philippine military have led many to suggest that our aid package should provide less military assistance and more economic or development assistance. Is the mix of assistance requested by the Administration for the regular Philippine program (not counting the special MAI program) a mix that was approved while considering the base rights agreement, or was it simply an aggregate figure that was agreed upon after which the Administration decided on how to make the split?

MR. LAMBERTSON: President Reagan wrote to President Aquino on October 17, 1988, at the conclusion of the Military Bases Agreement Review. His letter specified the levels of assistance in various programs that the Administration pledged to seek in FY 1990 and 1991.

MULTILATERAL ASSISTANCE INITIATIVE

SENATOR KASTEN: Philippine Budget Undersecretary Ben Diokno stated in January that any new aid plan for the country would be composed primarily of "repackaged" loans already committed by donors. In January, Japan granted its 15th yen loan of $737 million to the Philippines. A Philippine official involved in the negotiations reportedly said that the Japanese could have given about $300 million more, but held back because the amount was to be put into the Philippine Assistance Program (PAP), Manila's terminology for the Multilateral Assistance Initiative. In addition, Roberto Carpano of the Italian Embassy's Cooperation for Development unit said recently that his government's contribution to the PAP could well be the amount scheduled to be given under a bilateral aid agreement currently being negotiated. How much new money (i.e., currently uncommitted) will go to the Philippines as a result of the MAI? How much will be "repackaged" loans already committed by donors?

MR. LAMBERTSON: A donors' pledging session for the MAI is being organized by the World Bank. At that time, the the donors will pledge specific amounts of new funds for the MAI in addition to regular bilateral aid programs. However, a key and distinctive feature of the MAI is that it will help and encourage the Government of the Philippines to develop and undertake a comprehensive economic and administrative reform program aimed at restructuring the economy. The total amount of donor assistance for the MAI will be based on a Government of the Philippines economic and administrative reform program; disbursements will be linked to progress in implementing that program.

SENATOR KASTEN: How will the local governments in the Philippines and Filipino Non-Governmental Organizations be involved in the disbursement of the MAI funds? To what extent will these groups participate in policy and project design and implementation?

MR. LAMBERTSON: The use of the proposed $200 million as the first year U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines' economic reform program and continuing discussions with other key donors.

A.I.D. recognizes that PVO's, cooperatives and local organizations play an important role in development. In our bilateral program for the Philippines, we support U.S. and indigenous organizations with country-wide outreach, as well as small community groups working at the local level. The value of A.I.D.'s portfolio for assistance to PVO's, cooperatives and other non-governmental organizations in the Philippines is approximately $80 million. A.I.D. has expanded its support to these organizations in accordance with their capacity to carry out projects. The current program focuses on strengthening local institutions, such as indigenous PVO's, cooperatives and community organizations. There are three areas where U.S. PVO's have a comparative advantage and can make a significant contribution to development in the Philippines. These include technology transfer to indigenous organizations; promoting policy dialogue between community and government organizations; training mid-level managers and strengthening the management and operational functions of local organizations.

SENATOR KASTEN: It is generally recognized that in order for lasting development to occur, aid is more effectively disbursed in smaller increments over longer periods of time. In light of the serious problem of poverty and consequent social unrest in the Philippines, there will be significant pressure to disburse the MAI money quickly. What is your projected timeline for the use of the MAI money?

MR. LAMBERTSON: The MAI is planned as a five-year effort. The use of MAI funds will be linked to Government of the Philippines' performance in the implementation of its reform program. This includes administrative reforms to ensure that all development projects, including those using donor assistance, are implemented more rapidly. The Aquino Administration has already taken important steps to accelerate project preparation and implementation. The MAI offers an important opportunity to further accelerate this process. It is a potential instrument to coordinate donor assistance and improve the utilization of donor assistance. One example is the Government of the Philippines' decision to establish a Special Projects office to cut through red tape and accelerate the implementation of MAI projects. If it can be done for MAI projects, it can also be done for other development activities.

U.S. ENVIRONMENTAL OFFICER FOR THE PHILIPINES

SENATOR KASTEN: Does the U.S. Embassy in the Philippines have an Environmental Officer that has formal training in the environmental sciences and resource management? If not (I believe they do not have such an officer) - why not? Aren't we doing the American people a disservice by failing to have an expert on one of the most important problems facing the Philippines?

MR. LAMBERTSON: A.I.D. recognized the need for an Environmental Officer in the Philippines several years ago and has had one at post since then. A.I.D. currently has on its staff an Environmental Officer whose responsibilities includes the oversight of the agroforestry and natural resources portfolio. As the Environmental Officer, the incumbent must ensure that activities implemented by the Mission in conjunction with the Government of the Philippines fall within recognized and environmentally acceptable practices and A.I.D. regulations pertaining to the use of, inter alia, pesticides and chemicals. A.I.D. also plans to contract with a specialist in environmental education to increase public and institutional awareness of pollution and environmental problems. This specialist will identify actual and potential environmental hazards, their localities, and work with PVO's, other organizations, and the media to enhance environmental consciousness. In addition, A.I.D. plans to support the preparation of a country environmental profile in close collaboration with Philippine institutions. This country profile will compile data and information on the status of renewable natural resources in the Philippines, identify the major environmental problems, and establish priorities for action. This profile, in conjunction with existing analysis, can be used by the Government of the Philippines to develop a long-term program to promote natural resources management.

SENATOR KASTEN: A recent report by the World Resources Institute has cataloged the environmental degradation experienced by the Philippines over the last twenty years. The story is shocking and becoming more desperate each day. According to one prediction, poor land management coupled with illegal logging, could lead to the destruction of most of the country's tropical hardwood forest in ten years. The United States clearly has an interest in helping to reverse this trend and place the Philippines on the path of sustainable agriculture and responsible resource use. Would you support the appointment of a permanent environmental officer to the staff of the U.S. Embassy in Manila? If not, why not?

MR. LAMBERTSON: A.I.D. currently has on its staff an Environmental Officer whose responsibilities includes the oversight of the agroforestry and natural resources portfolio. As the Environmental Officer, the incumbent must ensure that activities implemented by the Mission in conjunction with the Government of the Philippines fall within recognized and environmentally acceptable practices and A.I.D. regulations pertaining to the use of, inter alia, pesticides and chemicals. A.I.D. currently has plans to contract with a specialist in environmental education to increase public and institutional awareness of pollution and environmental problems. This specialist will identify actual and potential environmental hazards, their localities, and work with PVO's, other organizations, and the media to enhance environmental consciousness.

SENATOR KASTEN: For the record: Please provide this Committee with a plan for how an environmental officer might be selected for the Philippines post with a description of his responsibilities?.

MR. LAMBERTSON: The Mission currently has a tenured Foreign Service Officer at post who serves as the Environmental Officer. This officer served in this capacity at his previous post and is well versed in today's issues involving the need to protect the environment and natural resources.

AIDS AND THE U.S. DEFENSE DEPARTMENT'S RESPONSIBILITY

SENATOR KASTEN: If it is ever established that the presence of United States military installations has contributed to many of the health problems faced by the local population, in particular drug abuse and AIDS, would you support drawing at least a portion of the costs associated with care and treatment of the locally infected population from the Defense Appropriations account, rather than through health accounts funded through the U.S. foreign assistance program?

MR. LAMBERTSON: There is no evidence that the U.S. presence contributes significantly to the health problems of the Philippines. In reference to AIDS, this question was addressed by the U.S. and Philippine Governments in the 1988 review of the Military Bases Agreement. In the October 1988 memorandum of Agreement that concluded the review, both Governments affirmed their common concern over the global problem of AIDS and their common interest in the prevention and control of this disease. Both Governments agreed to exchange releasable information on the incidence of AIDS virus infection, and the U.S. reaffirmed its policy that U.S. military personnel who test positive for the AIDS virus will not be assigned outside the U.S. In addition, both Governments agreed to refer the issue to a bilateral committee that will establish and develop programs and identify funding in support of AIDS prevention, education, testing, detection and control.

PHILIPPINES AND THE IMF

SENATOR KASTEN: Talks on a new IMF program for the Philippines broke down in December after disagreement over

Government spending priorities and the size of the budget deficit. Have these disagreements been resolved:

MR. LAMBERTSON: The Philippine Government and the IMF agreed in early March on a three year Extended Fund Facility program. President Aquino consulted with the Philippine Congress which approved the plan. A letter of intent to the IMF outlining the program was then signed by the Central Bank Governor and the Secretary of Finance on March 20.

SENATOR KASTEN: What targets has the Government set to reduce its budget deficit? Do you believe these targets are realistic and in line with U.S. recommendations?

MR. LAMBERTSON: The Philippine Government is committed to reducing the public sector deficit from 2.4% of GNP in 1988 to a range of 1.6 to 2.0% in 1990 and later years. A central element of the fiscal strategy is the improvement of the tax system, allowing the Government to to increase revenues from about 10% of GNP in 1985 to about 14% by 1992. These revenue increases will come about through improved administration of the tax system and adoption of new revenue measures by early 1990. At the same time, the Government aims to reduce its current expenditures from 13.9% of GNP in 1988 to 12% by 1992. This budget constraint will be achieved by controlling personnel expenditures, improved performance by 14 major public corporations, increasing public investments aimed at economic growth and more rapid use of foreign assistance available to the Philippines. We believe that the program agreed to by the Philippine Government and the IMF is sound and realistic. It is consistent with and complements the policy dialogue we have pursued with the Philippines in connection with our assistance programs.

PHILIPPINE TAXATION

SENATOR KASTEN: Speaking at a business gathering several months ago, Philippines Finance Secretary Jayme was reported to have stated that his government has always been shorted of tax collection targets and pointing out that of the 20 million Filipinos gainfully employed, only 750,000 actually paid taxes in 1986. Why should American taxpayers be expected to fund the Philippine Government to the tune of nearly $1 billion in FY 1990 when its own citizens have failed to meet their own fiscal responsibilities?

MR. LAMBERTSON: The Philippine Government has recognized the problems with the tax system and has outlined several measures in its agreement with the IMF designed to improve tax administration. The tax witholding system will be broadened, particularly for nonwage incomes. Collections from special investigations and delinquent accounts will be increased. The collection of customs duties will be increased by reducing underinvoicing of imports through the calculation of duties based on published fair market values. Ceilings on business allowances for income tax purposes will be introduced. The budget outlays for the hiring of 2,800 additional tax administration personnel have already been approved and will result in better tax compliance.

WARMING OF PHILIPPINE - COMMUNIST BLOC RELATIONS

SENATOR KASTEN: It was reported in the Washington Post in January that Philippine President Corazon Aquino may make an official visit to the Soviet Union this year as a part of a strategy to reduce Manila's close identification with Washington. In addition, Manila may open diplomatic ties with communist North Korea. Last November, Philippine Foreign Secretary, Raul Manglapus, made the first trip by a Philippine official to Vietnam, promising to increase trade between the two neighbors and praising Hanoi's communist leaders as fighters against colonialism in Asia. What should be the reaction of the United States? Are closer relations between the Philippines and the Communist Bloc in our national interest?

MR. LAMBERTSON: The Philippine Government is seeking to strengthen it ties with a variety of nations to supplement its traditionally close relationship with the United States. We do not regard such efforts as diminishing our close relationship with this trusted ally.

SENATOR KASTEN: How do you reconcile increased levels of security assistance to the Philippines, much of it going to fight the communist insurgency, with Manila's apparent desire to improve relations with those who support the political objectives of the insurgency?

MR. LAMBERTSON: The Philippine Government's commitment to defeating the insurgency cannot be questioned. It would not allow an improvement in its relations with its Asian neighbors to jeopardize its counterinsurgency effort.

The security assistance we have requested for the Philippines for FY90 is an essential component of the Philippine counterinsurgency effort. We believe that this assistance is vital to long term political stability and the future of democracy in the Philippines.

ENVIRONMENTAL PERFORMANCE OF U.S. MILITARY BASES

SENATOR KASTEN: Do our military bases have any measurable detrimental impact on water quality in the Philippines?

MR. LAMBERTSON: U.S. Military facilities have no measurable impact on water quality in the Philippines. One exception is the discharge of raw sewage into Subic Bay. Military construction funding has been requested to build a $7.9 million tertiary treatment plant for this waste prior to release.

Subic Naval Station is the only facility which has industrial activity situated adjacent to a large body of water, Subic Bay. Both Subic Naval Station and Clark Air Base have large petroleum fuel farms and active airfields which necessitate rigorous precautions to prevent environmental damage. All U.S. facilities have active measures to prevent pollution and to clean it up should accidents occur.

The industrial plants at Subic -- primarily the ship repair facility and public works center -- follow normally accepted standards and procedures for disposal of hazardous wastes. Heavy metals, chemicals, asbestos, oils and solvents are to be packaged and removed from the Philippines; none are to be disposed of in the Philippines. In addition, all acids and bases are to be neutralized before being released into the environment. Subic Naval Station has a phased plan of PCB removal from transformers which will be packaged for shipment to the U.S. for disposal. It also has a trained spill response team which is prepared to operate on land or sea. Every effort is made to comply with U.S. standards on industrial discharges through frequent inspections. Any spills are cleaned up and precautions and inspections instituted.

PORTION OF MAI TO ENVIRONMENTAL PROJECTS

SENATOR KASTEN: Of the $200 million requested in the MAI, how much is intended for environmental and resource management? Can you comment specifically on items like sewage treatment, soil conservation, forestry management and environmental education?

MR. LAMBERTSON: The use of the proposed $200 million as the first year U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines' economic reform program and continuing discussions with other key donors. Environmental protection and sound management of natural resources is one of the four major thrusts of our bilateral program in the Philippines. Debt for nature swaps could be considered under the MAI.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

EAST TIMOR

SENATOR HATFIELD: In your testimony on Indonesia, you made no mention of what I believe to be one of the greatest human tragedies of recent history: East Timor -- where at least 100,000 people (1 in 7 people) have died since 1975.

Although information suggests that the situation in East Timor has improved dramatically since the early part of this decade when thousands of Timorese were being killed and disappeared, I understand that human rights observers and journalists are still not allowed access to the island. In addition, there continue to be reports of widespread malnutrition and disease.

Please bring this Subcommittee up-to-date on the situation in East Timor and discuss what the United States has done and is doing to bring our concerns about the plight of the Timorese to the attention of the Indonesian government?

MR. LAMBERTSON: I agree wholeheartedly with your statement that the situation in East Timor has improved dramatically in recent years. The tragedy of the late 1970's caused great hardship and loss of life. A well-informed Indonesian government official told diplomats in 1983 that the number of dead since 1975 may have reached 60,000 to 75,000, the great bulk of the victims having died in the first years of the fighting from inadequate medical care and food rather than directly from battle. Since then the Indonesian military has sought to win over the remaining rebels through peaceful means as well as continued military operations. The Government of Indonesia has advertised the benefits that a high level of development expenditure (greater per capita than any other region) has brought the province, particularly in social services, such as schools and health services.

Regarding the food situation, the eastern region of the Indonesian archipelago, including the entire island of Timor has long been impoverished due to unpredictable rainfall, poor soils, and primitive cultivation practices. However, based on constant monitoring of the food situation since 1982, we believe East Timor has avoided serious food shortages and that no famine threatens at this time. The government's 1985 agreement to permit the International Committee of the Red Cross to resume nutrition surveys in the province, plus the increased government attention to food needs and infrastructure improvements such as roads, have been major factors in reducing food supply problems.

At the beginning of 1989, the Indonesian government announced that East Timor's status had been "normalized," i.e. travel and administrative procedures unique to East Timor were set aside. Experience so far indicates that travel by both foreigners and Indonesians, including the press, is easier and generally does not require a travel permit. Authorities, however, are dealing with visitors on an ad hoc basis: some have travelled without permits or hindrance to areas considered militarily sensitive, while others have had to obtain a permit. We are not aware of any representatives of human rights organizations who have sought access to the province this year.

We have long encouraged the Government of Indonesia to increase access to East Timor, and we welcome progress toward normalization of travel into and throughout the province. We place high priority on trying to improve the welfare and respect for the human rights of the Timorese people. Since 1981, USAID has provided almost $6 million for an agricultural development project in the Loes River Basin in the western part of the province. Under an agreement signed in 1980, USAID worked with the Indonesian government on a $3.6 million malaria control project covering East and West Timor.

The United States continues to make East Timor an element in our overall diplomatic dialogue with the Government of Indonesia, and the subject is raised in high-level meetings between Indonesian and U.S. representatives. Our embassy officers visit regularly. Ambassador Wolfowitz visited in June 1988. Government of Indonesia representatives have said they would welcome visits by members of the U.S. Congress and staffers.

I would be pleased to provide you or your staff with further information on the situation in East Timor, at your convenience.

CAMBODIA

SENATOR HATFIELD: Last month, Secretary Baker testified before this Subcommmitee that a role for the Khmer Rouge in a new Cambodian government was a "fact of life." To my knowledge, that was the first time that a U.S. official has recognized such a role for the Khmer Rouge. I am very concerned about such a statement.

Please explain clearly, and in detail:

a) what the U.S. policy is toward Cambodia and the Khmer Rouge;

b) on that basis Khmer Rouge participation in a new Cambodian government is a "fact of life;"

c) and, given your statement that the U.S. is unalterably opposed to a Khmer Rouge return to power in Cambodia, how the U.S. is going to ensure that that is not going to happen?

MR. LAMBERTSON: We fully share the serious concern of the international community regarding the possibility that the withdrawal of Vietnamese troops might lead to a Khmer Rouge (KR) return to dominance -- which we believe is their long-term goal. This Administration remains unalterably opposed to a dominant role for the KR, who left a legacy of brutality and depravity from their rule during the 1970's and whose activities to the present day recall that earlier reign of terror. An acceptable, durable settlement in this conflict must contain effective measures to ensure that the Khmer Rouge can never regain control and subject the Cambodian people once again to the horrors of the past. While the precise measures to be adopted remain a crucial area of negotiation among the Cambodian parties and their supporters, it is clear that discredited KR leaders, including Pol Pot, should not be allowed to play any role in a future Cambodian government.

We realize that only the Cambodians themselves can resolve the details of their own future, whether the issue is the form of government they will have or the country's political orientation. We believe that the Cambodians themselves must also decide if it is better to include elements of the KR, minus their senior leadership, as part of an interim government preceding elections or leave the KR on the outside in any final settlement. Prince Sihanouk argues that the KR can be better controlled in a government rather than in the jungles.

We believe that due to the strength of the Khmer Rouge, the potential danger they would pose if left out of an interim government, and the acceptance of KR political participation already announced by the other three factions -- they still disagree on the future of the KR army, it is quite possible that the KR will be represented in an interim government.

Ultimately, we hope that the Cambodian people have an opportunity to choose their future leaders through democratic means in free and fair internationally-supervised elections;

while we cannot imagine that the Cambodian people would willingly vote for the return of the Khmer Rouge to a position of control in a freely-elected future government, we also accept the possibility that all four Cambodian factions, including some KR representatives, will be elected.

However, we are making it clear to all parties that our support for future Cambodian governments, both during the interim period preceding elections and after elections, will be related to the level of KR participation in those governments.

We are prepared to support those practical and effective safeguards in a settlement agreement which will help achieve the goal of a truly free, independent, and peaceful Cambodia. This is not a simple requirement since the KR retain significant military strength in comparison with the other Cambodian factions. We also oppose domination by the Vietnamese-imposed Phnom Penh regime, the communist PRK -- which now has the largest number of troops of the four factions. Its sway too must be constrained in a settlement.

ASEAN, Prince Sihanouk, and others -- including China -- have proposed a number of concrete measures for controlling the Khmer Rouge -- as well as the PRK -- which merit very serious consideration:

o Free, internationally-supervised elections are a requirement accepted by all Cambodian parties; we cannot imagine that the Cambodian people would willingly vote for the return of the Khmer Rouge to power.

o The discredited senior Khmer Rouge leaders most responsible for heinous crimes against the Cambodian people, including Pol Pot, must be prevented from playing a role in a future Cambodian government (e.g., through their removal abroad).

o The forces of the four Cambodian factions might be frozen in location, reduced to equal numbers, and/or possibly disarmed under international monitoring.

o Outside arms shipments to the Khmer Rouge -- and to the PRK -- must be ended.

o International access to KR camps along the Cambodian-Thai border must be improved, and efforts made to allow freedom of choice to the unfortunate people who may be in them involuntarily and to reduce the KR ability to impress young people as soldiers and porters.

o An international conference should be held, once there is agreement on the basic elements of a settlement, to mobilize the international community to guarantee and support the settlement agreement, with special attention to its provisions relating to the control of the KR.

o There is a growing international consensus that there must an international presence established in Cambodia sufficiently strong to be able to monitor effectively the Vietnamese withdrawal, a cease-fire, and other provisions. By whatever title, this should be an armed peace-keeping force, probably under United Nations auspices.

o Finally, a comprehensive settlement should provide for a body to monitor the human rights situation and publicize throughout the world any Cambodian human rights violations. Evidence of the true nature of the KR was readily available well before 1975, but people gave it insufficient attention, and Cambodia paid a terrible price. We must not let a similar situation recur.

SENATOR HATFIELD: Yesterday, the Vietnamese announced they will withdraw from Cambodia by September, 1989, regardless of a settlement in Cambodia and Prince Sihanouk and Hun Sen have agreed to reopen a dialogue concerning a Cambodian settlement. Please comment.

MR. LAMBERTSON: The United States has long called for the expeditious withdrawal of all Vietnamese troops as a key component of a Cambodian settlement. Clearly, a total and verified withdrawal of Vietnam's forces would contribute to the process of returning peace and stability to Cambodia.

Therefore, we have called on Hanoi to withdraw its remaining troops, which we estimate at 60-70,000, as they have pledged publicly by September 30, without preconditions, and under acceptable international verification.

During the past year, agreements in principle have been reached on some of the elements essential to an acceptable solution in Cambodia -- the coordination of a Vietnamese withdrawal with reduction of outside military assistance to all parties, for example.

Nevertheless, important differences remain -- particularly on the formation of an interim government preceding elections. While welcoming the Jakarta meeting between Prince Sihanouk and Hun Sen, we still see insufficient Hun Sen concessions on power sharing and the role of an international presence to make possible a comprehensive, stable settlement; anything less will leave an unworkable situation, making likely a civil war.

HUMAN RIGHTS VIOLATIONS BY THE MILITARY

SENATOR HATFIELD: In recent months, a variety of human rights and church organizations have contacted me regarding the deteriorating human rights situation in the Philippines. Indeed, during 1988 there were more than 100 reported "disappearances" and continuing reports of torture by the military and by vigilante citizens groups.

Yet you testified today that "respect for human rights has greatly improved under (President Aquino's) Administration." Could you support that statement with specific facts about reported human rights violations, the alleged involvement of the military and any prosecution of military officers for human rights violations?

MR. LAMBERTSON: President Aquino's commitment to human rights, both in word and deed, has resulted in a greater respect for protection of human rights in the Philippines. Her actions on assuming power -- releasing political prisoners, removing media controls, restoring democratic institutions and holding elections -- were impressive. But as President Aquino has noted, justice in the Philippnes "still wears the sad aspect of its past neglect."

In 1988, the Philippine Commission on Human Rights (CHR) received 911 reports of violations (which included some allegations of abuses which occurred during the Marcos era). All of these have been submitted for investigation. The CHR found 82 to have merit and submitted these to civilian and military courts, Prosecutor's Office or National Police Commission; 88 were dismissed, either for lack of evidence or because they were not found to be valid human rights complaints; investigations in 102 were completed but with no official finding for further prosecution or dismissal; and investigations are ongoing in 639 others. In the first two months of 1989, 99 cases were submitted to the CHR.

While there are some violations of human rights by military officials, this is in direct violation of government policy. To promote more rigorous observance of human rights regulations, Secretary of National Defense Ramos has directed that military commanders be held responsible for violations by their subordinates and ordered that human rights records be an important consideration in military promotions. Training of military personnel now places greater emphasis on the respect for human rights. President Aquino has shifted a number of human rights cases against members of the Armed Forces from military to civilian courts.

Military personnel and members of citizen voluntary organizations who commit human rights abuses are being prosecuted. CAFGU members are subject to military discipline and are prosecuted in military courts for infractions. Some convictions have already been obtained and many investigations are being vigorously pursued. For example, eight members of the Marcos-era Civilian Home Defense Force (CHDF) were convicted in 1987 for the April 11, 1985 murder of an Italian priest. In 1988, a Marine Captain was sentenced by a general court martial to separation and hard labor for the death of Cirilo Matas on May 25, 1985.

FALSE ALLEGATIONS OF HUMAN RIGHTS ABUSE

SENATOR HATFIELD: In your testimony, you made that comment that "other (human rights) allegations are probably fabricated by communist-influenced organizations seeking to weaken often effective anti-communist citizen groups or to discredit the Aquino Government." That is a very serious charge, and I wonder if you could back it up with specific evidence.

MR. LAMBERTSON: Communist party documents captured by the Armed Forces of the Philippines reportedly indicated that the Communists killed some of their own people in an internal purge and decided to blame their disappearances on the Government. Some of those people believed to have been victims of the purge are listed as "disappeared" by the Task Force Detainees (TFD). The captured documents also reportedly revealed plans by the Communist Party to infiltrate cause oriented groups to launch a human rights campaign blaming the military for the disappearances of leftist legal activists. Our Consulate in Cebu reports that Communists are using fabricated reports of

Government human rights abuses in several southern Provinces, including Augusan del Norte, Zamboanga del Sur, Negros Occidental and Cebu. Frequently, unsubstantiated reports of military human rights abuses are repeated and used as "proof."

Many observers in the Philippines believe that the Communist Party, and elements linked to it have been campaigning hard to discredit the CAFGU's and CVO's established by the Aquino Government, not because they violate human rights, but because they have been effective in depriving Communist guerrillas of their sanctuaries and base of support. Given the highly charged politics of the issue, and the fact that many abuses occur in remote areas of the countryside, obtaining reliable information is difficult. Some Philippine human rights organizations accept reports of abuse without investigating or checking the veracity of the report, making such groups potential tools for a Communist disinformation campaign.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

BURDENSHARING

SENATOR D'AMATO: As America's fiscal crisis has deepened, there has arisen a rising chorus of voices calling on Japan to take on a greater share of the burden for defending the Western Pacific. What effect would Japan's spending 3%, or even 6%, of GNP on defense have on the balance of power in the Pacific and East? Would it lend or detract from stability? What effect could we anticipate if similar spending was instead channeled into foreign aid?

MR. LAMBERTSON: Japan's defense spending has increased over 5% a year in real terms for a decade, well above NATO's goal of 3%. Now about $31 billion, Japan's defense spending ranks about 5th in the world, 2nd among non-nuclear powers. Using NATO accounting methods (which include veterans' costs), Japan's defense budget ranks 3rd after the US and USSR, at over $40 billion. Friendly countries accept Japan's defense-oriented military buildup but would be concerned if Japan developed offensive power or played a regional security role. History, constitutional restraints, potential concerns of neighbors, and the fact that Japan's conventional defense role is neither global nor regional, realistically limit what Japan can or should do in a strictly military sense. A Japanese defense budget of 3% ($93 billion) or 6% of GNP ($186 billion) per year would certainly affect the balance of power in the Pacific and East Asia, but would also be viewed by Japan's neighbors as destabilizing. Japan agrees that it should play a greater role in supporting the common security interests of the West and has done so particularly by increasing ODA. This year Japan is likely to become the world's largest donor of economic assistance and plans to disburse at least $50 billion from 1988 - 1992. It is doubtful institutional mechanisms exist either in Japan or in recipient countries which could effectively utilize contributions on the order of $83-196 billion per year from Japan alone.

CAMBODIA

SENATOR D'AMATO: Realistically, is there any way to prevent the Khmer Rouge from re-asserting control over Cambodia once the Vietnamese have completed their withdrawal?

MR. LAMBERTSON: This Administration shares fully the strong concern regarding the Khmer Rouge and is unalterably opposed to their return to dominance in Cambodia. We are committed to a settlement in Cambodia which contains safeguards as practical and effective as possible to ensure that the Khmer Rouge can never again subject the Cambodian people to the horrors they have known in the past. This is not a simple requirement since the KR retain significant military strength in comparison with the other Cambodian factions. We also oppose domination by the Vietnamese-imposed Phnom Penh regime, the communist PRK -- which now has the largest number of troops of the four factions. Its sway too must be constrained in a settlement.

ASEAN, Prince Sihanouk, and others -- including China -- have proposed a number of concrete measures for controlling the Khmer Rouge -- as well as the PRK -- which merit very serious consideration:

o Free, internationally-supervised elections are a requirement accepted by all Cambodian parties; we cannot imagine that the Cambodian people would willingly vote for the return of the Khmer Rouge to power.

o The discredited senior Khmer Rouge leaders most responsible for heinous crimes against the Cambodian people, including Pol Pot, must be prevented from playing a role in a future Cambodian government (e.g., through their removal abroad).

o The forces of the four Cambodian factions might be frozen in location, reduced to equal numbers, and/or possibly disarmed under international monitoring.

o Outside arms shipments to the Khmer Rouge--and to the PRK--must be ended.

o International access to KR camps along the Cambodian-Thai border must be improved, and efforts made to allow freedom of choice to the unfortunate people who may be in them involuntarily and to reduce the KR ability to impress young people as soldiers and porters.

o An international conference should be held, once there is agreement on the basic elements of a settlement, to mobilize the international community to guarantee and support the settlement agreement, with special attention to its provisions relating to the control of the KR.

o There is a growing international consensus that there must an international presence established in Cambodia sufficiently strong to be able to monitor effectively the Vietnamese withdrawal, a cease-fire, and other provisions. By whatever title, this should be an armed peace-keeping force, preferably under United Nations auspices.

o Finally, a comprehensive settlement should provide for a body to monitor the human rights situation and publicize throughout the world any Cambodian human rights violations. Evidence of the true nature of the KR was readily available well before 1975, but people gave it insufficient attention, and Cambodia paid a terrible price. We must not let a similar situation recur.

BASE NEGOTIATIONS WITH THE PHILIPPINE GOVERNMENT

SENATOR D'AMATO: What is the status of our negotiations with the Philippine Government over the continued leasing of Subic Bay Naval Base and Clark Air Base?

MR. LAMBERTSON: The 1947 Military Bases Agreement (MBA) with the Philippine Government was amended in 1966 to shorten the original Agreement's fixed term to 25 years from the date of the amendment. The MBA is not a lease but rather an agreement between our two Governments which outlines the terms of U.S. use of military facilities located in the Philippines. The 1947 Agreement states that the bases shall be provided "free of rent, in furtherance of the mutual interest of both countries." The U.S. pays no rent to any of the countries in which it maintains major operational bases, believing that all members of an alliance should assist in sharing mutual defense burdens. Under the MBA, the U.S. provides economic and security assistance and the Philippines provides land for the U.S. military facilities, skilled civilian employees and perimeter security.

The Philippine Government maintains that the present MBA expires in 1991. We expect to begin negotiations this year on a new agreement. In this regard, President Aquino stated on April 25 that it is "safe to assume" that before the end of 1989 negotiations will begin on a new agreement to maintain U.S. facilities in the Philippines.

SENATOR D'AMATO: Has the Philippine House of Representatives acted on the bill to ban nuclear weapons?

MR. LAMBERTSON: No, the Philippine House of Representatives has not acted on the anti-nuclear bill. The bill remains under consideration in committee.

FSX

SENATOR D'AMATO: Considerable attention has been focused on the economic ramifications of the proposed FSX deal. On a broader political and military level, how comfortable are our friends in East Asia with the Japanese quest to develop a first-rate indigenous aerospace industry?

MR. LAMBERTSON: I am assured that the technology being transferred under the FSX program is not transferable, either practically or under the terms of the agreement, to the commercial aircraft sector.

Moreover, FSX is a long-term development and production project, and by the end of this process, the technology will be a further fifteen years older.

I believe our friends in East Asia would share our conclusion that the FSX program--by ensuring the participation of US industry in Japan's military aircraft industry--makes the development in Japan of a first-rate indigenous aerospace industry less likely than would the alternative of not participating in this program.

CHEMICAL AND BIOLOGICAL WEAPONS

SENATOR D'AMATO: I have been reliably informed that an as yet publicly unidentified Japanese company has been exporting "shiploads worth" of chemical and biological weapons precursors to Iraq, Syria, Egypt, and Libya. To your knowledge, is this true? Has the Japanese Government investigated this company? Are the Swiss authorities cooperating in identifying and seizing the bank accounts used in these illegal transfers?

MR. LAMBERTSON: Since any such information would probably derive from sensitive sources and methods, if requested, we will be happy to respond through the Senate Select Committee on Intelligence or through an appropriate classified briefing.

AGENCY FOR INTERNATIONAL DEVELOPMENT

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

JAPAN AND DEBT REDUCTION

SENATOR INOUYE: Japan is taking innovative steps with respect to the debt crisis, including a $30 billion recycling fund and the still-evolving Miyazawa Plan for securitizing part of the debt (i.e., trading old loans at a discount for long-term bonds).

What do you see as the long term impact of the Japanese debt reduction schemes and what might their effect be upon the U.S.A. trading position?

DR. ADELMAN: The recycling plan primarily involves lending by GOJ agencies to LDCs. It also includes purchase of LDC government bonds on Tokyo capital markets. Approximately half the funding comes from the private sector and the remainder from public agencies. Much of the latter represents normal Japanese ODA already planned but now scored against the recycling plan. Most of the Japanese EXIM and OECF activities involve cofinancing with MDBs (e.g., World Bank, Asian Development Bank, and Inter-American Development Bank) in projects, sector adjustment loans, and structural adjustment loans. If the recipient LDC is "heavily indebted," it must have an IMF standby or some other program aimed at debt management.

With the exception of small amounts of funding, the plan was not intended to be developmental (or to provide debt relief) but rather to provide new lines of credit. The impact on debtor countries depends on the impact of the activities financed through the plan. If projects, sector activities, and other activities are ill conceived, the country will be left with a larger debt burden and no corresponding increase in development. Conversely, where activities are good, the LDC will benefit from the large amounts of funding augmenting funds of MDBs, OECF, and others.

The Miyazawa Plan, formally proposed at the September 1988 Bank/Fund meetings, would provide debt relief to medium-income, heavily indebted countries having medium-term "structural improvement" programs. As initially proposed, debtor countries would trade debt at one to one for super-long-term exit bonds having a lower interest rate.

The plan is similar to the Baker II in its impact on banks, multilaterals, and the debtor country. However, no new money would be provided by the Bank or Fund under Miyazawa, and the IMF has an expanded role in implementation as it would hold debtor cash reserves in an escrow account. Under Miyazawa, the Japanese propose offering untied credit to increase imports of debtor countries.

The long term impact of the Miyazawa Plan on debtor countries depends essentially on the effects of structural adjustment and other reform programs. The principal remains the same, but with a lower interest rate and yearly principal (assuming longer maturity) debtor countries should be better able to meet yearly payments. Nevertheless, the original debt has been reduced only by the amount of reduced interest, yearly payments must still be made, and the untied loans will result in still more debt. If the program allows countries to buy time while structural adjustment measures lead to growth, the end result will be beneficial.

Neither the recycling fund nor the Miyazawa Plan should have much direct impact on the U.S. trade position. Loans under both programs are untied, so they should not increase Japanese exports at the expense of the U.S. The recycling fund will lead (in a small number of cases) to increased Japanese involvement in LDC companies. In the long run, if the programs result in increased imports by the debtor countries, U.S. exports would increase based on the types of goods imported and our relative share of the market.

PHILIPPINES $200 MILLION MAI

SENATOR INOUYE: Critics of the MAI have expressed the concern that much of the $200 million may be used towards large infrastructure projects, in particular roads and bridges in and around Manila. What is needed, they insist, are aggressive health, population, environment, and sustainable agriculture initiatives targeted to the rural areas and the Philippine poor. How will the $200 in MAI funds be used in the Philippines?

DR. ADELMAN: The overall objective of the MAI is to assist in restructuring the Philippines economy to achieve sustained economic growth and expanding opportunities for the average Filipino. This includes the bulk of the population living in rural areas.

The USG contribution to the MAI will be in support of this objective, and we anticipate it will concentrate on three areas. First, policy reforms to stimulate economic growth and the development of the private sector will be a key part of the MAI program and a central focus for USG assistance. Specific policy areas might include policy biases adversely affecting the rural economy including: regulations affecting farm-gate prices and key imports such as fertilizer; and, inter-island shipping policies. The second area of support will be the development of the private sector. This might also include reform and strengthening of the rural banking system; new approaches to privatization; infrastructure development such as as telecommunications and power; and engineering design work on a number of major projects. Third, the USG contribution may support the accelerated implementation of high-impact projects to develop productive enterprises and rural infrastructure in selected geographic areas.

SENATOR INOUYE: Do you envisage using MAI funds in environmental protection and restoration projects? If so, what kinds of projects and with what degree of financial commitment? Please be specific.

DR. ADELMAN: The sound management of the environment and natural resources base is one of the primary areas of attention under our current bilateral program. A.I.D. will be funding a country environmental profile which will be the basis for a new $10 million Environmental and Natural Resource Management project starting in FY 1990. We anticipate using our bilateral program to expand our activities in this area in the future. Our program goals and objectives for the Philippines include sustainable natural resources management, rehabilitation, and conservation to promote economic development and ensure environmental sustainability. In addition, we will share the environmental profile with other donors to provide a common information and data base around which the donor community can build complementary activities. Discussions have already been held with the World Bank on future cooperation and will be expanded to include other MAI donors.

SENATOR INOUYE: Do you have any plans to use the MAI funds for debt-for-nature-swaps in the Philippines?

DR. ADELMAN: The Government of the Philippines already has a debt-equity swap program. We believe this could be significantly expanded, resulting in debt reduction. As noted in the testimony of Acting DAS Fall of the Treasury Department before the HFAC, this is one of the economic reforms we are urging the Government of the Philippines to consider expanding. Accordingly, debt and debt service reduction are fully consistent with and will complement the MAI program.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

PHILIPPINE NATIONAL ENVIRONMENTAL PLAN

SENATOR KASTEN: Are you supportive of the efforts to draw up a national environmental plan for the Philippines? If so, what are you doing to develop such a plan?

DR. ADELMAN: The sound management of the environment and natural resources base is one of the primary areas of attention under our current bilateral program. A.I.D. and the World Bank are discussing ways to assist the development the new Department of Environment and Natural Resources. As a first step in this process, A.I.D. will be funding a country environmental profile which will be the basis for a new $10 million Environmental and Natural Resource Management project starting in FY 1990. We anticipate using our bilateral program to expand our activities in this area in the future. This country profile will compile data and information on the status of renewable natural resources in the Philippines, identify the major environmental problems, and establish priorities for action. In conjunction with existing analysis, the profile can be used by the Government of the Philippines to develop a long-term program to promote natural resources management.

SENATOR KASTEN: What efforts are being made in the Philippines to protect indigenous peoples from expulsion from their traditional lands?

DR. ADELMAN: The Philippine government has ongoing efforts to identify cultural minorities and legislate legal protection for them. According to Article XII, Section 5 of the 1986 Constitution, ratified in 1987: "The state, subject to the provisions of this constitution and national development policies and programs, shall protect the rights of indigenous cultural communities to their ancestral lands to ensure their economic, social, and cultural well-being. The Congress may provide for the applicability of customary laws governing property rights or relations in determining the ownership and extent of ancestral domain." Pursuant to this constitutional provision, the Aquino Government in 1987 established, under the Office of the President, three offices dealing with tribal communities.

The Philippine Congress is in the process of enacting an organic act to grant autonomy to the Cordillera region, an area rich in cultural minorities. This autonomy is mandated by the Constitution. The new autonomous government of the Cordilleras will have full control over ancestral lands in the autonomous region.

Congressional committees are considering some bills dealing with restoring the rights of tribal communities to their ancestral lands, however, lack of an acceptable definition of ancestral lands is a stumbling block. The executive branch has recently attempted to consolidate these bills into one certified by the President, but conflicting claims to the same land and lack of agreement among minorities on the issue of individual or communal ownership is a major obstacle.

Conflicting claims arise when lowland settlers obtain legal titles to land, previously untitled, which is cultivated by cultural minorities. The relentless pressure of an increasing population exacerbates the problem. Increased attention to the issue may at least reduce the further encroachment on the lands of cultural minorities. Civic, religious and political organizations are interested in protecting the rights of cultural minorities and are providing them with a political voice on matters of special interest. Significant numbers of these groups have become professional and some have entered government service. Under these circumstances, it would be difficult to expel large groups of cultural minorities from their traditional lands without significant resistance.

JAPAN, MAI, AND THE PHILIPPINES

SENATOR KASTEN: What guidelines have been drawn up by the Philippine government to carry out the MAI?

DR. ADELMAN: The central objective of the MAI is to assist the Government of the Philippines in restructuring its economy to achieve sustained growth and expanding opportunities for the average Filipino. Continued progress in the implementation of economic and administrative reforms is critical to the success of this effort. These include reforms such as continued trade liberalization, deregulation, privatization, liberalization of the investment regime, and prudent monetary and fiscal policies consistent with the Government of the Philippines agreement with the IMF. The Government of the Philippines is developing an economic framework paper which will outline its reform program and priorities. That paper should be available to donors within the next several weeks. MAI resources will be linked to the implementation of that program and donors will negotiate individual assistance activities, establishing specific reform targets and identifying particular projects, within that framework.

SENATOR KASTEN: Will the guidelines set up for the MAI have a rural or urban focus?

DR. ADELMAN: The transition of the Philippines economy, from a highly regulated, inward looking, inefficient import-substitution economy to one which is deregulated, export oriented, competitive and dynamic, will result in expanding opportunities for the average Filipino. The Government of the Philippines current policy is to emphasize expanding opportunities in rural areas, and preliminary project proposals have focused on areas outside the large commercial centers of Manila and Cebu.

SENATOR KASTEN: How much of the MAI funding will be targeted on the poor, who, according to government estimates make up 60 to 70 percent of the population?

DR. ADELMAN: The most effective way to address poverty in developing countries is through the generation of employment. The objective of the MAI is to restructure the economy to achieve sustained growth led by the private sector. This will generate the employment opportunities which will help overcome poverty. Consequently, official assistance under the MAI will emphasize policy reform and infrastructure development in order to create increased investment and stimulate the growth of the private sector.

The Government of the Philippines' economic reform program which is being finalized points out that the Government's development strategy places high priority on the need to alleviate poverty through greater production, employment generation, improved income distribution and development of human capital. The economic program, focuses the provision of social services on alleviating the plight of the rural and urban poor. It proposed a "biased-to-the-poor" approach in social services provision aimed at targetting, greater efficiency and better quality of services offered. The Government proposes to adopt more poverty-focused criteria in health, education, nutrition, family planning, housing, and other social services.

SENATOR KASTEN: Will the projects being contemplated under the MAI be genuinely broad-based and participatory?

DR. ADELMAN: As previously stated, the primary emphasis of the MAI is on restructuring the Philippines economy, and consequently donors have been concentrating on the formulation of a Philippines economic reform program. The Government of the Philippines economic reform program which is being finalized now will stimulate broad-based growth led by the private sector and provide expanded opportunities for the average Filipino. Following donor approval of the economic reform program framework paper, individual projects will be jointly developed by the Government of the Philippines and the funding donor or multilateral organizations. The degree of participation in projects under the MAI may vary from fully participatory to more planned major infrastructure activities.

SENATOR KASTEN: Given increasing protectionism in the world market, will the development thrust of the MAI be toward developing the internal economy of the Philippines or will it be geared toward export-led growth?

DR. ADELMAN: The objective of the MAI is to assist the Government of the Philippines in restructuring the economy and successfully navigating a transition from a highly regulated, inwardly looking, inefficient import-substitution economy to one which is deregulated, export oriented, competitive and dynamic, and will result in expanding opportunities for the average Filipino.

MAI AND LEVERAGED FUNDING

SENATOR KASTEN: It is my understanding that the United States MAI money will be used to leverage funds from other countries, specifically from Japan, West Germany and Taiwan. In what form is this leveraged money likely to be granted? Will it be in the form of loans or grants? If loans, under what conditions and terms of repayment? How solid are these commitments?

DR. ADELMAN: The USG began informal international consultations on the MAI in the spring of 1988, and we have been continuing these discussions over the past year. We are confident that the MAI can bring significant new resources from other donors to the Philippines, including both loans and grants. The following countries have expressed interest in participation: Japan, South Korea, Brunei, Singapore, Australia, Canada, the Federal Republic of Germany, France, Italy and the Netherlands. The levels of assistance to the Philippines from all donors have increased significantly since the Aquino government came to power in 1986. Donors are prepared to maintain or increase these levels in the form of grants and concessionary loans, provided that the Government of the Philippines formulates an acceptable economic program for the MAI. Similarly we have informal indications from the World Bank and ADB that they are prepared to expand their lending substantially but first need to have an acceptable investment program from the Philippines. These informal commitments will not be formalized until the Consultative Group holds its first pledging session. The proposed U.S. financial contribution of $200 million will allow us to organize the MAI, and encourage increased assistance from other donors. Without this U.S. commitment, international support for the MAI will be seriously eroded.

SENATOR KASTEN: If funding leveraged by the MAI is provided to the Philippines in the form of loans, is there not a danger that this will only enhance the country's already overwhelming debt burden?

DR. ADELMAN: Overall, donor aid to the Philippines is moderately concessional, with an overall "grant element" of 76.9 percent on 1987 bilateral and multilateral ODA. The "grant element" is a measure of the loan's concessionality, reflecting lower-than-market interest rates and/or a grace period before interest payments must begin. In 1987, only three bilateral donors -- Japan, West Germany, and Norway -- committed part or all of their new ODA on loan terms, compared with 14 donors who provided all-grant assistance. The most significant exception here is Japan, whose aid represents a large share of total ODA to the Philippines but is committed on relatively hard terms (58.1 percent grant element on 1987 commitments); aid committed by other bilateral donors in 1987 contained a 99.3 percent grant element.

PHILIPPINES, MAI, AND THE ENVIRONMENT

SENATOR KASTEN: What level of MAI resources are you and the Philippine government prepared to commit to initiatives to improve overall environmental quality in the country?

DR. ADELMAN: The use of the proposed $200 million as the first year U.S. contribution to the MAI will depend both on the final shape of the Government of the Philippines economic reform program which is being finalized now and discussions with other key donors. Therefore, we can not tell you now how much will be spent in environmental protection. We do know that the MAI economic program presently being developed does address some environmental concerns particularly those dealing with deforestation and soil erosion. We are looking at the feasibility of expanding the debt-for-nature swap program.

The Government of the Philippines is also concerned about the environment. Its new constitution gives explicit recognition to management of the environment and a new Department of Environment and Natural Resources has been established. A national environmental profile which will indicate the major problems will undertaken this year. A.I.D. has already identified environmental protection and sound natural resource management as one of the primary areas of emphasis in our current program. We expect to expand our bilateral activities in this area in the future.

SENATOR KASTEN: Have you encouraged the Philippine government to undertake a national environmental plan for the country? If not, why not?

DR. ADELMAN: The sound management of the environment and natural resources base is one of the primary areas of attention under our current bilateral program. A.I.D. and the World Bank are discussing ways to assist the development the new Department of Environment and Natural Resources. As a first step in this process, A.I.D. will be funding a country environmental profile which will be the basis for a new $10 million Environmental and Natural Resource Management project starting in FY 1990. We anticipate using our bilateral program to expand our activities in this area in the future. This country profile will compile data and information on the status of renewable natural resources in the Philippines, identify the major environmental problems, and establish priorities for action. In conjunction with existing analysis, the profile can be used by the Government of the Philippines to develop a long-term program to promote natural resources management.

IMF STANDBY CREDITS FOR THE PHILIPPINES

SENATOR KASTEN: What is the current status of negotiations over the $1.3 billion in stand-by credits that the Philippines is seeking from the IMF?

DR. ADELMAN: We understand that the agreement negotiated between the IMF and the Government of the Philippines has been approved by the IMF management and that it will be submitted to the IMF Board in late May.

SENATOR KASTEN: What coordination is taking place between the IMF and bilateral aid donors to the Philippines over the type of conditionality to be required of the country in exchange for new standby credit?

DR. ADELMAN: Bilateral donors have not been involved in the discussions between the Government of the Philippines and the IMF concerning the establishment of an Extended Fund Facility. However, we are ensuring that the MAI will be consistent with the agreement reached with the IMF. The Government of the Philippines economic framework paper will draw upon the expertise of the IMF and World Bank, and will build upon a number of studies and documents, including the recently concluded IMF agreement. It will be entirely consistent with the IMF agreement but will also address other economic and administrative reform issues. We and other donors have been in close consultation with the IMF and World Bank on the development of the MAI program.

FUNDS FOR THE PHILIPPINES

SENATOR KASTEN: Your request for a $200 million new program for the Philippines, while noble, will be very difficult to provide this year in view of the budget situation. Even if we were able to provide the money, how far would it actually go in giving real relief to the Philippines?

DR. ADELMAN: The MAI can make a real difference in the Philippines. The economic reforms and sector programs supported by the MAI will help restructure the economy and create the conditions for sustained broad-based economic growth led by the private sector. The increased level of donor assistance and burdensharing by other governments, within a framework of Philippines economic policy reforms, makes the MAI unique and distinguishes it from our regular program. The MAI offers a unique opportunity to leverage other donors' funds and thereby promote greater economic opportunity for Filipinos, which is a key factor for the re-enforcement of democracy in the Philippines. A U.S. financial commitment of $200 will allow us to organize the MAI, encouraging increased assistance from other donors, as well as Government of the Philippines policy reforms. Without this U.S. commitment to organize and provide funds, the MAI effort is not likely to proceed.

SENATOR KASTEN: More specifically, what is the Philippines annual debt repayment in dollars?

DR. ADELMAN: The Philippines is experiencing a net outflow of financial resources, estimated at $2.2 billion in 1988. Had the Philippines not rescheduled its debt, this net outflow would have been higher by about $1.8 billion. Public and private debt service payments in 1988 were roughly $3.6 billion, consisting of $2.3 billion in interest and $1.3 billion in principal repayments.

BIRTH RATES AND BIRTH CONTROL

SENATOR KASTEN: For many years, several countries in Asia experienced high birth rates but subsequently have served as models for successful population planning programs, especially in Indonesia and Thailand. Do those programs continue to be the models they once were, and do you have any suggestions about how we might utilize the lessons of those countries in others like Kenya which continue to have such high birth rates?

DR. ADELMAN: Indonesia and Thailand continue to have model population planning programs. They have significantly reduced their birth rates, and are maintaining very high levels of contraceptive prevalence, more than 60 percent in Thailand and nearly 50 percent in Indonesia.

Most importantly, in the evolution of both programs, there is increasing reliance on transfer of services from the public sector to the private sector. This transition is being facilitated with A.I.D. assistance, and is expected to ensure that lower fertility rates are maintained, at less cost to the governments.

Among the lessons learned from Indonesia and Thailand, we know that political support at the highest levels of government contributed greatly to the success of the Indonesia program. While political leadership in Thailand was not as vocally supportive of family planning, support was nevertheless strong enough to facilitate both public and private sector efforts. In Kenya, while political leadership supports the concept of family planning, and there has been an official family planning program since 1966, the translation of the policy into program effort is hindered by weak commitment at the middle levels of the bureaucracy. Motivation to limit fertility is associated with many factors, including socioeconomic level, female education level, and cultural values. Per capita income, literacy and educational levels for females are lower in Kenya than Thailand and Indonesia. The traditional large family continues to be the norm in Kenya.

AFGHANISTAN

SENATOR KASTEN: You are requesting $35 million in ESF funds for Afghanistan. For what will these funds be used, and do you think this amount is anywhere near what is required for U.S. assistance to the people we support in Afghanistan?

DR. ADELMAN: The $35 million in ESF funds, combined with $35 million in DA funds, will be used to ensure that conditions inside Afghanistan will help sustain up to seven million refugees and displaced persons. Funding will be used to continue and expand activities in agriculture, health, and commodity sectors, and to a lesser extent in education. In the past, a majority of our funding was extended to the resistance Alliance parties with the help of U.S. technical organizations (Volunteers in Technical Assistance for Agriculture, Management Sciences for Health, RONCO for commodities, and the University of Nebraska for education). We expect this arrangement to continue with appropriate ministries of the new Afghan Interim Government. Additionally we plan to continue grants to European and U.S. voluntary agencies which provide needed health training and medical supplies.

The $70 million A.I.D. is requesting for fiscal year 1990 will not be sufficient to meet all the needs of rebuilding Afghanistan. However, though initially slow to respond, the UN is taking the lead in mobilizing resources from the international community to support a sizeable repatriation and resettlement effort. We are closely coordinating our program with the United Nations.

SUBCOMMITTEE RECESS

Senator Leahy. The subcommittee will now stand in recess until 2 p.m., on Tuesday, April 11. At that time we will receive testimony on aid for Africa and Southern Africa peacekeeping.

[Whereupon, at 10:43 a.m., Thursday, April 6, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, April 11.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

MONDAY, APRIL 17, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 11:07 a.m., in room SD–116, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy and Nickles.

AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR AFRICA

STATEMENT OF WALTER G. BOLLINGER, ACTING ASSISTANT ADMINISTRATOR FOR AFRICA, BUREAU FOR AFRICA

OPENING STATEMENT OF SENATOR LEAHY

Senator LEAHY. Good morning. We had to reschedule this hearing to accommodate a hearing with Secretary Baker on the contra issues and that means we are here on a Monday morning when most members of the committee are probably on their way back to the Capital; enjoying themselves drinking coffee out of styrofoam cups in cramped airplanes that are not running on schedule. It reminds me of those bumper stickers we now see out at National Airport that say: "Reregulate? Hell, no. Nationalize." [Laughter.]

In any event, I want to talk about some of the very urgent and troubling issues facing the subcommittee.

MANY PROBLEMS IN AFRICA

I just said to Eric Newsom, as I came in, this weekend I sat outdoors going through the briefing material my staff had prepared for me for this hearing, page after page of it. It was probably the most depressing material I have ever read. Everything you look at in Africa is a case of which terrible choice do you make over which other terrible choice.

Three years ago the United States led the relief effort to save millions of starving Ethiopians who fled to the Sudan to escape drought and civil war. I believe as many as 1 million lives were saved. But last year more than 250,000 people starved to death in the Sudan itself.

That number strikes home to me very much. That represents one-half the population of my own State of Vermont starving to death. If we had one person in our State or in anybody else's State that starves to death, it becomes a national story. You've seen it in those very rare instances when somebody starves to death in this country. It's a front-page story. It is on the evening news and so forth. One-quarter of 1 million.

We have sent millions of dollars in American aid there in the past, but sub-Saharan Africa is facing every imaginable problem there is: recurring famine, unending political, racial relations and tribal violence, rampant official corruption, gross violations of human rights, including by military regimes we support. Economies have been on a downward spiral since independence, and that is exacerbated by huge and growing foreign debt. Deforestation, drought, a devastating locust plague. That is the story of much of Africa today.

Africa is where our commitment to help the developing countries to meet their most basic human needs is being put to the ultimate test. I don't think we are meeting that test. I don't know anybody in the Congress, or in the administration, who feels we are succeeding.

There are 500 million people in sub-Saharan Africa, twice the population of the United States of America. We give less development assistance to those 500 million people than we give to 9 million people in El Salvador and Honduras. That says something about our priorities. At the same time we use our scarce foreign aid dollars to give military aid to corrupt undemocratic regimes in Africa that abuse their own people.

President Reagan, the first President since Dwight Eisenhower to serve a full 8 years, never visited Africa during that time. It sort of sends a signal to that part of the world on how we feel about them. So, I don't think we can continue with modest kinds of steps that fall into the category of photo ops. There simply isn't the time.

LIMITED RESOURCES

When you look at this fiscal year 1990 budget, it is wholly inadequate to meet the challenges. It doesn't even begin to scratch the surface. I am not suggesting that it is your fault. With all the other pressures on a dwindling budget, you don't have the resources you need. And I am not suggesting that we can solve these problems by ourselves.

Just like in the drug war—everybody is against drugs coming into this country—everybody is against famine. Everybody is against people starving to death. Nobody is going to walk by and see somebody starving to death and not want to do something. It is easy enough to say that we are all in favor of getting rid of starvation just as we are in favor of getting rid of drugs.

But what we have done to get rid of drugs in this country is to take paper bags in up-scale suburban grocery stores and stamp "Just say no to drugs" on them. Everybody gets so happy that they have finally done something. Of course, it doesn't do a darned thing except make money for the paper bag manufacturers.

And we are doing the same thing here. We are all saying we're against hunger. We even have groups who go around this country lobbying saying we want to raise everybody's consciousness to be against hunger. In this country, most people who are hungry do it by choice. Not so in sub-Saharan Africa.

So, I want to talk about some of your priorities. I want to see if we can better spend what limited resources we have. I question the very favorable assessment of structural adjustment in your statement. There are increasing signs that what it means is that some are able to own their Mercedes so they can drive by others who live in abject poverty.

I realize Africa is not an easy place to get results, and you deserve credit for what has been done. But I think what we have is a situation that is totally irreconcilable with the modern age we live in. It is a case where we as a country have to make a decision. Do we just ignore it? Do we use band aid remedies? Or do we really want to take some steps?

DEPRESSING HEADLINES

I would like you to keep in mind some recent headlines. And they will really form part of my questions.

The Financial Times, April 11, "Zambia: Marked for Life by AIDS."

Another article in the Oregon Herald, "Hermiston Scientist Leads War on Locusts."

Another, March 3 article starts: "And the Agency for International Development reports U.S. AID no longer does what it originally was intended to do, help poor countries become self-sufficient."

Wall Street Journal, April 11, "Dinka Tribes Made Slaves in Sudan's Civil War." It says in there that the price of selling women has dropped from around $25 or $50 down to $5; the price of a human being.

In the Newsweek of April 10, "In the Grip of a Plague, a Deadly Meningitis Strikes Central Africa."

The Washington Post, April 9, "Nairobi Slum: Africa's Ragged Face, Poorest Continent Becoming Most Rapidly Urbanized" and on and on.

Every one of those headlines raises a question.

I mention these articles only because I want you to know that I am concerned. I read these briefing materials and get a sense of hopelessness, a sense of realization that we do not put the priority on Africa as we do in other parts of the world. As I said, we put more money into an area with 9 million than we do with 500 million people.

PREPARED STATEMENT OF SENATOR D'AMATO

I will leave the record open for opening statements.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I am very concerned by both the sale by the Soviets of advanced fighter-bombers to Libya and the outbreak of violence in Namibia.

Not since the revelation that the Saudis had obtained long-range ballistic missiles have I been as shocked by an arms sale. It is absolutely inconceivable to me what the Soviets hope to achieve by selling advanced SU-24 attack aircraft capable of in-flight refueling to the Libyans.

It is the equivalent of unchaining a rabid dog.

Clearly, there continues to be a wide divergence between Soviet rhetoric and actions. I will be very interested to hear what our witnesses have to say about how this arms transfer will effect the security of our friends in the Mediterranean.

To the south, the South-West Africa People's Organization (SWAPO) has engaged in a massive violation of the accord reached last December by Angola, South Africa, Cuba, and the United States based upon U.N. Resolution 435.

According to the settlement, all SWAPO guerrillas were to be north of the 16th parallel by April 1. Instead, on the very day South African troops were restricted to their barracks, a force of up to 1,000 SWAPO fighters shot their way into Namibia.

A fragile, long sought after peace hangs in the balance.

I was pleased by the swift condemnation of this incursion by the State Department, but I am concerned by reports of the U.N.'s inability to get these guerrillas back out of Namibia. An update by our witnesses on the status of SWAPO's pullback would be appreciated.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator LEAHY. So, who wants to start? Who wants a chance to lead off and tell us how things are going?

Mr. BOLLINGER. I would like to make a few comments. I had an oral statement prepared, but I will compress it and try to respond to some of the specific points that you made.

[The statement follows:]

STATEMENT OF WALTER G. BOLLINGER

Good afternoon. I am happy to have this opportunity to talk with you about sub-Saharan Africa and U.S. aid programs to the forty-five countries in this region. I would like to address four points:

1. Economic developments in Africa.
2. Progress report on A.I.D.'s implementation of the Development Fund for Africa.
3. Where we intend to go over the coming two or three years with the DFA.
4. Some critical outstanding issues.

I. Economic Developments in Africa

This is a year of change in Africa's economic conditions. While the continent continues to suffer from very serious long-term development problems, we are seeing growing evidence of improved economic performance in those African countries which have undertaken economic reform.

Most reforming countries are achieving modest per capita growth, and significant improvements in agricultural production. Because of the increased production of reforming countries, Africa's food production overall has grown faster than population over the last three years, marking a reversal of the previous long-term trend of declining per capita food production.

Unfortunately the other side of the picture is that other African countries, those who do not have policy reform programs in place, are continuing to decline. Their growth is not much higher than it was during the period of Africa's peak crisis, from 1980 to 1985. As a result, a growing gap is developing between reforming and non-reforming countries.

A new report from the World Bank, entitled Africa's Adjustment and Growth in the 1980's, documents these trends. We are submitting a copy of this report for the record. The report's findings are summarized in a pair of recent articles in The Economist, which are attached.

Besides presenting empirical information on the effects of reform, the World Bank report also analyzes some of the commonly-held beliefs about the sources of Africa's problems. It questions the notion that external factors have been the overwhelming culprit, and places more of the blame on bad policy.

Some of the specific conclusions of the Bank study are as follows:

-- Africa has suffered serious external shocks from falling commodity prices. Declining prices contributed to a major economic decline from 1980 to 1985. However, external shocks do not explain the depth of Africa's difficulties. Commodity prices are down from the peak of 1980, but they are still above the level of the 1970's.

- Rather, a large part of Africa's export losses have resulted, not from falling prices, but to loss of market share to other Third World producers. Thus part of the problem is Africa's lack of competitiveness, which is related to policy problems.

- Nor do Africa's problems reflect an insincere effort by the donors to give foreign aid. Africa receives very high amounts of aid. Its share of worldwide official development assistance (ODA) has doubled over the last 15 years, and continues to rise. With only about 12% of the developing world's population, Africa receives 30% of ODA.

- There is clear evidence that countries which have made serious economic reforms are doing better in terms of production and growth. In reforming countries, agricultural production grew twice as fast from 1985-87 as from 1980-84. In nonreforming countries, it did not improve.

- The growth effects of reform have been hampered by the fact that reforming countries suffered further terms of trade losses in 1986-87, after reform began. However, when external shocks are factored out, the evidence shows that overall growth in reforming countries rose from an average of 1% a year from 1980-84 to almost 4% from 1986-87, while that of non-reforming countries increased slightly or not at all.

Importance of Reform

We at A.I.D. feel that these findings support what we have been saying about the importance of policy reform and the need for continued assistance in Africa.

Reform is difficult to implement, and growth payoffs do take time to emerge. But we are now beginning to see the evidence on the ground that reform does produce tangible rewards.

The donors are also doing their part. Donor aid has increased significantly under the World Bank's Special Program of Assistance for Africa, and is being better coordinated than in the past. This represents a real effort to respond to the needs of reforming countries.

In short, the process is working. However, the glass is only half full. Serious problems remain.

Problems We Face

First, reform is fragile, even in the best performing countries. It has a thin base of political support, and it hurts many privileged people who benefitted from the old system. Making reform more politically sustainable is a major concern.

Second, we continue to have difficulty securing adequate resources to allow reforming countries to meet their import needs. This problem is compounded by the debt burden, which will be even more onerous in the 1990's if something isn't done about it.

Third, we are getting into new areas of reform which place new demands on the donors and on African governments. Increasingly, the focus of reform is shifting from macroeconomic issues to structural change at the sectoral level--agriculture, health, education, etc. This requires donors to understand the details of African institutions. And it requires African governments to face difficult choices about distribution of services and the urban/rural balance.

Social Costs of Adjustment

One of the most contentious aspects of policy reform is its effect on the poor. Many people look at the hardships of vulnerable groups, especially the poor and children, and conclude that structural adjustment is at fault. But this is mistaking the medicine for the disease. The disease is chronic stagnation and failure to adjust to changed international conditions. This is what is causing Africa's people to suffer. Policy reform is "a medicine" that attempts to correct these problems through structural change leading to higher growth.

It is true that the IMF has often required African governments to reduce their budgets for social services and subsidies, which have reduced government benefits. But these cutbacks have been necessitated by past stagnation, which reform is trying to correct.

Over the long term economic growth dictates the level of social services. This is shown by the historical experience of Ghana and Tanzania, depicted in the accompanying graphs. These graphs show that social services fell as growth fell and rose as growth rose, as a function of economic policies.

We at A.I.D. are convinced that the overall effect of African policy reform is progressive, with particular benefit going to small farmers and producers. We believe that, over time, reform will lead to improved equity as well as higher growth. Nevertheless, there is little empirical evidence on this score. In order to learn about the impact of reform on poverty, we have entered into a cooperative agreement with Cornell University to conduct about eight country studies investigating this issue.

II. Development Fund for Africa: What We've Done So Far

Let me now turn to the Development Fund for Africa and a more detailed look at A.I.D. programs. I'll just mention a few key points, and let you voice your specific concerns in questions.

Performance-Based Programming

First, we think we have done pretty well at fulfilling one of primary mandates of the DFA, concentrating our resources on countries where there are good prospects for results. For example, in FY88 and FY89, our DFA funding for six countries that have demonstrated solid performance in the implementation of economic reform programs (Ghana, Guinea, Madagascar, Malawi, Tanzania, and Uganda) rose 80% over the average level of DA and ESF in FY86 and FY87.

In our FY90 budget, more than one half of the DFA is targetted on ten high-performing African countries. We are also upgrading our economic analysis capacity in those countries, and giving special attention to them in our management oversight in Washington.

However, programming on the basis of performance has required us to reduce assistance in some countries where reform has been lagging, such as Liberia, Somalia, Zambia, and Zaire. Some of these reductions have been quite large. For example, Zambia went from $17 million in FY87 (DA plus ESF) to $5 million in the FY90 request.

Country Focus

Second, the DFA has given us more flexibility to focus on the needs of individual countries, rather than the functions by which aid is accounted for. The Africa Bureau was moving toward a more comprehensive look at a country's problems before the DFA. However, we found ourselves continually frustrated by the need to justify our activities in functional account terms.

The DFA has changed that. It makes it much easier for us to look first at what is needed in a specific situation, and then to develop activities to meet those needs, rather than applying a "standard package" of development tools. It also makes it easier for us to integrate nonproject and project aid in a coherent package. For example, in Uganda nonproject aid (through the AEPRP) is helping producers break new ground with nontraditional exports; project aid is supporting the re-equipping of farmers and cooperatives; and food aid is supporting industrial rehabilitation.

A.I.D.'s country focus also expands our influence over the way other donors spend their money. When other donors see A.I.D. emphasizing certain areas because of our country analysis, they sometimes choose to work on the same problems. This is a special payoff from A.I.D.'s most valuable resources, its in-country teams.

More Coordination with Other Donors

Third, the DFA's flexibility has made it easier for us to coordinate U.S. assistance with that of other donors under the World Bank's Special Program of Assistance. This program is aimed at helping debt-distressed, reforming countries meet their critical financing needs.

Under this program a large number of donors have made major increases in their aid contributions to Africa. The U.S. has not substantially increased its aid, because of our budget constraints. But, in spite of overall funding limits, our ability to deliver quick-disbursing, untied aid, well coordinated with Bank priorities, has allowed us to make a credible contribution to the SPA. It has also allowed us to influence the way other donors are spending their money, to increase the development impact. In both these efforts, the DFA has been extremely helpful.

Sustaining Special Emphases

Fourth, although the DFA contains no earmarks, we have continued vigorous programs in the areas that Congress has targeted for special interest: population, child survival, and the environment. Graphs showing the breakdown of DFA funds for FY1988-90 are attached.

We are meeting or exceeding the 10% targets in population and health in the period of FY1988-90 and in natural resources management in FY1989. We barely missed the 10% target in natural resources in FY88 and right now are not shown as meeting it in FY90. However, the FY90 projection is based on early projections, and we will be working to bring this number up. Moreover, beyond the dollar figures, we believe that we have made major progress in natural resources management. We have developed a new strategy for this area, which we submitted to you last year. We have worked especially hard on the difficult environmental problems in the Sahel. We have started a large number of environmental projects in cooperation with PVO's. And we have worked with national governments to encourage policy changes that promote environmental protection.

Policy changes are extremely important. For example, in Niger we have been able to negotiate new land tenure regulations for project areas, which have given people incentives to plant trees and conserve the soil. What is needed now is to find ways to extend these tenure changes to other areas.

Accountability for Results

Finally, we have begun to move into a new stage in implementation of the DFA, focusing on results as well as process.

In this effort A.I.D. is trying to address one of the principal problems raised in the Hamilton report. That report said that A.I.D. and Congress have become too preoccupied with managing the inputs of aid, and too little concerned with outputs--the results achieved and their impact in the country. For A.I.D. this implies a need to reduce the time spent on paperwork and planning, and to expand the effort devoted to implementation, management, and getting out into the country. For Congress it implies less before-the-fact micro-management, and more reliance on holding A.I.D. responsible for results.

We in the Africa Bureau agree with this criticism of our past operations. We are taking three steps to correct it.

One, we are just completing an Action Plan for implementing the DFA which focuses on results. The Action Plan not only describes our strategy for development assistance under the DFA, it also lays out common indicators -- or benchmarks --which we will use to measure progress in key areas quantitatively.

Two, we are continuing to improve our monitoring and evaluation capability. Country level Action Plans will be completed by the end of 1989 for our top ten priority countries. These Action Plans will help A.I.D./Washington and our Mission managers monitor overall program performance.

In addition, we are improving the quality of our project monitoring and evaluation. For example, we are in the final phases of an effort to look at the impact of completed rural credit projects in five countries -- Kenya, Malawi, Lesotho, Cameroon, and Liberia. We have tried to determine the impact these projects have had on peoples' lives and incomes. But we have also examined the projects' impact on the development of sustainable rural financial systems. This will help us to not only understand what we accomplished or failed to accomplish in past projects, but also what we should do differently in the future.

Three, we are examining our management procedures and paperwork requirements. The DFA has already helped to reduce time-consuming procurement and budget management procedures. We believe there are many more ways to reduce the time our people spend on paperwork, and to increase the time they spend working with their host country colleagues.

III. Outlook for the DFA

We see these next two or three years as critical ones for the DFA. We have laid out an ambitious agenda for action. We have just begun to take real advantage of the budgetary and management flexibility which the DFA offers, while continuing to respond to Congressional interest in specific areas. We are now developing country Action Plans and portfolios which are more tightly focused and oriented to results.

However, our experience to date has already taught us some important lessons. Two of these deserve special attention: 1) the need to take a systemic approach; and 2) the importance of sustainability.

The Systemic Approach and Sectoral Reform

Whether we're working to improve agricultural production by the majority of farmers or to ensure that newborn infants will receive the basic course of immunizations before they are one year old, we have found through experience that it is imperative to look at the problems from a systemic, rather than a project, point of view.

What does this mean? First, it means that just providing resources to do the job one year or three years is not enough. Only when we develop local systems which will keep services available on a continuous basis long after U.S. assistance is ended can we say that we have been effective. The local systems need not be public. Indeed, we have found that privately-controlled marketing systems are more likely to stay in operation over the long haul than public systems.

Second, it means that A.I.D. must understand the whole system rather than just a segment. An overly-narrow approach to project design which we, like all other donors, have followed in the past enabled each of us to focus efficiently on our piece of the elephant -- but not to understand why the creature couldn't walk. Projects fell apart when donor assistance ended, and governments were often overwhelmed by diverse donor projects.

For example, in Kenya, the donor community is currently supporting 136 separate agriculture projects. This creates a massive management burden for the Kenyan government and a potential for great inefficiency. By contrast, A.I.D. was able to produce major gains for Kenya's whole fertilizer marketing system through a systemic reform program. This program has fostered the growth of private fertilizer distribution systems, removed all direct management burdens from the Government of Kenya as well as A.I.D., and benefitted a large number of farmers on a continuing basis. The proportion of fertilizer going to small farmers has increased from 15% to 45%. This program has not only affected A.I.D.'s 12% of fertilizer imports, but also the 38% coming from other donors, and the 50% imported commercially.

Another example comes from Burundi. While in the past our agricultural aid to Burundi focused on research and seed production, it has become evident that an important constraint to increasing production is the way that markets function. Our Mission analyzed what it was that prevented Burundians from participating more actively in domestic and export markets. Perhaps not surprisingly, several answers were found: policy, information, financial markets, trade regulations, and the like. The DFA has given us the flexibility to address problems like these sytemically.

Third, it means that sectoral reforms will be the core of our assistance program for the future. In these sectoral programs, we will draw on lessons from past experience.

We will continue to emphasize agriculture, which is the field where we've achieved the most to date. You are probably familiar with the increases in agricultural production that have resulted from reform. But the other side of the equation is that the prices paid to farmers are also up in real terms (which is why they are producing more). This means that farm income (production times price) has increased significantly in most countries.

An example of what works is our grain marketing reform program in the Sahel. That program was particularly successful in Mali and the Gambia, where we have used food aid and dollar resources to reform the grain market and increase the role of private traders. Interviews with consumers in Mali showed that these changes helped poor rural people by making grain more available and the supply more reliable.

Social Sectors and Sustainability

We are increasingly turning our attention to the social sectors. However, we are going to have to approach the social services problem differently, in a way that pays much more attention to sustainability. Lack of sustainability has been a major problem in the past, both at the level of overall government programs (where services became budgetarily unsustainable, as in Tanzania) and at the level of individual donor projects (which often failed to survive the end of donor funding).

We intend to work aggressively toward restructuring social services so that they: 1) serve the rural areas better, and 2) can be sustained over the long term. We have social sector programs planned for FY89 in Kenya, Mali, and Nigeria.

I want to stress that the distribution effects of the kinds of restructuring that are being considered are overwhelmingly progressive. We are talking about changes like reducing expensive subsidies for liberal arts education in African universities, and shifting resources to primary education in rural areas. We are talking about reducing the subsidies going to expensive hospital services that serve the urban elite and increasing preventive health care for the masses.

IV. Critical outstanding issues

In closing, I would like to note several issues which we feel deserve more attention by A.I.D. and the Congress in the future.

Personnel Requirements

The new development directions that A.I.D. is pursuing place heavy demands on our personnel, particularly in terms of analytic ability. A different mix of people is required than we needed ten years ago. Unfortunately, these demands come at a time when the agency is under budget pressure to limit Operating Expense costs, which holds down our number of direct hires. The Africa Bureau is particularly vulnerable to personnel shortages, because less adequate health and education facilities restrict the number of eligible people.

Accordingly, it is very important that A.I.D. receive full funding for its FY90 OE request. This request includes an additional $1 million for staff training over last year's level, to address the need for new skills. Full funding of this request is critical to our ability to effectively implement the new directions in aid policy that I have described.

Funding Recurrent Budgets in Africa

The second problem also relates to operating expenses --those of African governments. There is a well-known tendency for donors to favor new investment and projects, and to ignore the problems that African governments face in supporting existing activities. This is an aspect of the sustainability problem I referred to above.

This problem has become even more critical as African governments have faced severe budget pressures. I don't have an answer to this problem, but I would like to leave you with a question to think about: Should the donors consider providing budget support to African governments to pay for operating expenses in key areas?

Increased Consultation

Finally, we in the Africa Bureau believe very strongly in the new consultation procedures that this committee and your counterpart in the House have set up for DFA oversight. We would much rather talk with you, respond to your questions, and have a dialogue than try to communicate with you through a lot of reports (which you don't have time to read anyway). We look forward to working with the subcommittee to make this process effective in meeting your needs and concerns.

[FROM THE ECONOMIST, MAR. 4, 1989]

Africa's hope

"OUT of Africa", wrote Pliny, "always something new." Two millennia later, many people would like to change that to "something ghastly". Perhaps, just perhaps, they would now be wrong. For the first time in decades, there is a little cheer coming from that huge continent.

The ghastliness, to be sure, is still there. The real income of the average African is now 10% lower than in 1970. A baby born in Guinea is three times more likely to die before the age of four than one born in (poorer) Burma. AIDS has spread farther in Africa than anywhere else: half of all adult Ugandans may have it by the end of the century. The Sahara moves south, the Kalahari north, getting 100 miles closer each year. The Ivory Coast's rain forests have shrunk by four-fifths, its elephants all gone. Governments in Africa are changed by guns, and 3m refugees are the living victims of fierce wars. In Africa, it seems, life is still poor, nasty, brutish and short, and likely to remain so.

It is too early to drop that harsh judgment. But it is right to qualify it. The reason for doing so lies in Africa's recent economic performance. The changes have something to do with gentler weather, and possibly with quirks in African statistics. But other things are at work as well.

The mood behind the figures

The sunnier statistics stretch across a wide horizon. Africa's farmers have increased their output by 4% a year for the past four years, after 1¼% a year in the previous 15. For all except black Africa's five oil producers, the volume of exports fell by a fifth between 1970 and 1984; in the past four years it has risen by a tenth. Africa's GNP has grown by about 2¼% a year since 1984, or 3% excluding the oil producers. That keeps pace with population growth. For the first time in two decades, the average African is not getting poorer.

If such figures were all there were, they would not mean much just yet. What lies behind them matters more. Many African governments have pushed their economic policies through wrenching changes, often at the IMF's behest. Others have plodded on, ignoring advice. This contrast offers surer conclusions about which policies work and which don't.

The list of successful policies contains nothing that would surprise an economist in South Korea or Thailand. Raise the prices paid to farmers; make sure interest rates are above the rate of inflation; keep the exchange rate competitive; keep the budget deficit low; give state firms tight financial targets, but managerial autonomy; do all these things and you will at least set the framework for an economy to grow. Such policies are now being adopted down the continent, from Senegal to Burundi to Botswana. But they are also being ignored in places as far apart as Benin and Zambia—and the differences show. They are much harder to ignore than if the economic alternatives were being tried just in far-off lands with different histories, cultures and climates.

According to a new study by the World Bank (see page 63), Africa's reformers have had three years of growth averaging 3¼%, compared with 1½% for countries stuck in the old ways. For Africans, an annual 3¼% points the way up from poverty; 1½% marks the path down to an eventual hell-hole of economic degradation and political collapse.

It will be several years before it is certain that Africa's governments have learnt from their various experiments. Even if they do, it will then be many years before reforms produce the sort of living standards that other third-worlders are coming to expect from their own economies. If real average incomes in Africa's poorest ten countries were to rise by just 1% a year, it would be 50 years before they reach even the pitiful level currently achieved by the average Indian.

The reasons for such slow progress are not hard to find, and some are deep and intractable. Africa starts a long way behind other continents. Its politics often lacks the fundamentals that most other countries have had for centuries: a sense of nationhood, an acceptance of government, legal rights to private property. Africa's boundaries were drawn by Europeans a century ago, splitting some tribes and joining others up inside countries that Europe's governments wanted to run, and boast about, but seldom to advance. Europe has fought its own wars over flags and maps; inside Eastern Europe and the Soviet Union, the fighting goes on. It is massively distracting, and damaging to economies. But it is a feature of Africa, and it will not go away.

Africa's other great handicap is its shortage of skills. Zambia became independent with 100 university graduates, 1,500 people who had had a full secondary education, and another 6,000 with two years at secondary school—that for a country of more than 4m people. It was as though India had 16,000 graduates, which is actually how many it turns out from Delhi University alone every year. Yet Africa plumped for state planning—the economic system that, to work even half well, makes huge demands on skilled bureaucrats.

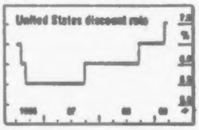
It will be many years before Africa's educational standards can match even those of today's Bangladesh. But time is already bringing a new realism into African life. It used to be considered the greatest form of paternalism to suggest that black Africans were unsuited to political power. Africans themselves saw off that colonial canard, and won their independence. But then their leaders—many still in office today—combined with a new group of white outsiders to produce a new type of paternalism, in its way even more insulting. The ordinary African, they agreed, could not get rich: the goverment had to do it for him. In Fabian circles, it sounded kind. It was the kindness that kills.

What Africa does not lack are ordinary people who respond to the sort of incentives that ordinary people in most other countries take for granted. Market day in Accra is recognisably similar to market day in Aberdeen. Until 1980 the black farmers of Zimbabwe had never sold more than 80,000 tonnes of maize to the marketing board; then their new government established 19 marketing centres, and in 1982 the farmers sold 400,000 tonnes. Kenya's businessmen set up companies, hustle for orders, export to world markets; across the border, Tanzania has no business life because for 20 years its government thought business was wicked.

Instead of letting its people free, Tanzania's government—and many others—preferred to blame the rest of the world. Multinational companies were plunderers, commodity markets were rigged, bankers cared not a fig for development. And the rest of the world, still steeped in colonial guilt, allowed this ranting to go on. Few foreigners dared to say that many of Africa's economic woes were home-made. Today, outsiders are starting to be blunter—ie, less patronising—because Africans themselves are acknowledging their own mistakes. Listen to the African heads of state in Lagos in 1980, claiming that their economic plight stemmed from "the political constraints on the development of the continent caused by colonial and racist domination and exploitation." Then listen to the African group at the United Nations special session in 1986: "Africa has taken the main responsibility for its own development." Harold Macmillan once talked of a "wind of change" in Africa; in a continent always long on rhetoric, what is now happening is a change of wind.

The change has occurred in just a few years, but it heralds a world of new chances. A world in which African leaders stop patronising their own people, and give them a chance to get richer. A world in which outsiders stop patronising African leaders, and talk to them as truthfully as they would to an American or a Frenchman. A world in which political openness combines with economic commonsense. It will take Africa many years to be free of its poverty, but at last the light may be shining.

Dicing with depression



It is risky to curb inflation with higher interest rates, but necessary

THE last lingering fears that the stockmarket crash of October 1987 might drag the world economy into a recession have vanished. The vitality of the big industrial economies over the past year has been remarkable, confirming the power of the post-crash easing of monetary policy. How ironic it will be if this proof that modern governments have broken the links between financial crash and economic slump should bring a recession of its own—a slump caused not by an unintended collapse in demand, but by one that governments were compelled to engineer.

In most of the world's rich economies, inflation is creeping up. Since last summer America's inflation rate has risen from less than 4% to nearly 5%, Japan's from 0.2% to 1%, West Germany's from 1% to nearly 3%. Those figures might seem unalarming, but financial markets think that further rises are on the way. America's economy, especially, is running flat out: more demand just means higher prices.

The present inflation threat seems trivial beside the two big inflations of the 1970s. But the correct historical parallel for 1989 is the late 1960s, not the oil-shocked decade that followed. In 1968-69, as now, America saw an inching up of inflation, not a sudden leap. Then, as now, the main cause was an excessive growth of domestic demand, left unchecked for too long. A spiral of wage and price increases caused interest rates to rise, and the recession of 1970 followed. It was a shallow slump by later standards—but a slump all the same. It happened because tight money was used to squash inflation.

Today, central banks are either leading short-term interest rates higher themselves, or else rubber-stamping rises decreed by the markets. When America's Federal Reserve raised its discount rate from 6½% to 7% on February 24th, it was endorsing, not leading; the markets had wanted and expected a rise to 7½%. The central banks of Japan and West Germany have also allowed money-market rates to rise in recent weeks; many financial traders expected the Bundesbank to raise its discount rate at its meeting on March 2nd, and the Bank of Japan will not be far behind.

Back to square one

Rounds of higher interest rates are partly self-defeating. That is what makes them so dangerous. Each of the three main central banks judges interest rates with one eye on its currency. Worries about inflation go hand in hand with a desire to keep the currency strong (because a devaluation makes imports dearer). So when the Fed lets American interest rates go up, it does so partly to stop the dollar falling. If higher rates in West Germany and Japan then close the gap again, the dollar faces renewed downward pressure, and the Fed—so far as the exchange rate is concerned—is back where it started. The clear danger is that in trying to keep all their currencies strong, the central banks will push interest rates too high and bring on an unnecessary slump.

If economic co-operation had any valid role, it would be to temper this sort of competitive monetary policy. But there is a catch. Whereas Japan and West Germany have big external surpluses, America has a big and no-longer-falling deficit.

African lessons

Remarkably, black Africa has actually become poorer in the 1980s. Factors beyond its control—an "adverse external environment"—usually get the blame. This is wrong. Africa's problems are largely of its own making, and so must be the solutions

ECONOMICS FOCUS

IN THE 1970s the dollar export earnings of sub-Saharan Africa (henceforth Africa) grew on average by more than 20% a year. Exclude oil, because the region includes five oil-exporters, and the rise was still an impressive 13% a year. Between 1980 and 1985 the trend reversed: non-oil export earnings fell by 5.5% a year. They have since regained some of the ground, but earnings are still lower than at the start of the decade. The region's capacity to import has fallen in parallel. The figures for GDP tell a similar story. Output (including oil) declined in the first half of the decade, then recovered, for dismal growth that totalled less than 2% during the whole of 1980-87. Alongside an expanding population, that meant a sharp fall in income per head.

A new joint report* from the World Bank and the United Nations Development Programme qualifies this picture in important ways. First, a statistical caveat—the biggest of many. Africa's GDP figures are based on 1980 prices and exchange rates. On this basis, Nigeria's share of GDP is nearly 50%. Since 1980 its currency has been devalued massively, reducing the country's share of Africa's GDP to less than 20%. Nigeria has done badly in the 1980s, so giving it a smaller weight makes the region as a whole look better. Using 1987 exchange rates, Africa's output grew by a cumulative 13% in 1980-87, instead of by less than 2%.

That aside, however you measure growth Africa has lagged behind other developing countries. The collapse in dollar export earnings is a vital reason for this. Why did it happen?

A common belief is that in the 1980s the world economy has been crueller to Africa than to other regions—in other words, that Africa's export prices (which are set in world commodity markets) have fallen by more than average ones. This is true for the oil exporters; for the rest (which are greatly helped by cheaper oil) it is not. Africa has been lucky in its mix of (non-oil) commodities. Their prices have fallen since 1980, but by only half as much as the world average. Prices of tea, coffee and cocoa (which count for a lot in Africa's exports) have stayed relatively high, while cereal prices (which matter much less) have tumbled.

If the decline in export earnings was not due mainly to lower prices, it must have been due to poor export volumes. So it was. Africa's non-oil export volumes have been roughly static since 1970; over the same period the export volumes of all developing countries have more than trebled (see chart). To put this another way, if Africa had merely held onto its 1970 share of the non-oil commodities exported by developing countries, its export earnings would have been $10 billion higher in 1987. That is as much as the region's annual bill for debt service.

If volumes rather than prices are to blame, this suggests that Africa's distress has been caused mainly by bad policy. This would be an encouraging conclusion because policy mistakes can be put right. In the mid-1980s many African countries began to reform their economic policies—often to comply with IMF and/or World Bank financing programmes. Reforms included currency devaluations, better incentives for farmers, liberalised pricing systems, lower fiscal deficits and so on. The region's growth rate improved after 1985. Is there a connection?

The report compares carefully the performance of reforming and largely non-reforming countries, before and after 1985 (see table). The "strong reformers" are those with adjustment programmes agreed on with the IMF and the World Bank during 1985-87. At first sight, the results are underwhelming: growth, for example, picked up after 1985 in reforming and non-reforming countries alike. But, not coincidentally, the worst of the economic shocks of the 1980s fell on the strong reformers (which is why some of them embraced the IMF in the first place). So to set like against like, the report excludes badly shocked countries from both sides of the comparison.

The results are striking. Non-reformers still grew faster in 1985-87 than in 1980-84, but the improvement is smaller. The strong reformers, in contrast, leapt ahead. In 1985-87 they grew on average by 3.8% a year—better than their own earlier performance (1.2%) and, more important, better than the non-reformers (1.5%). In the later period, the non-reformers saw their exports, investment, and consumption per head all fall in real terms. The strong reformers saw all of them rise. No surprise: good policy makes a difference.

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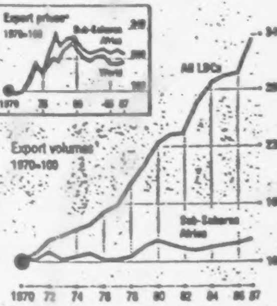
*Africa's adjustment and growth in the 1980s. World Bank and UNDP. To be published next week.

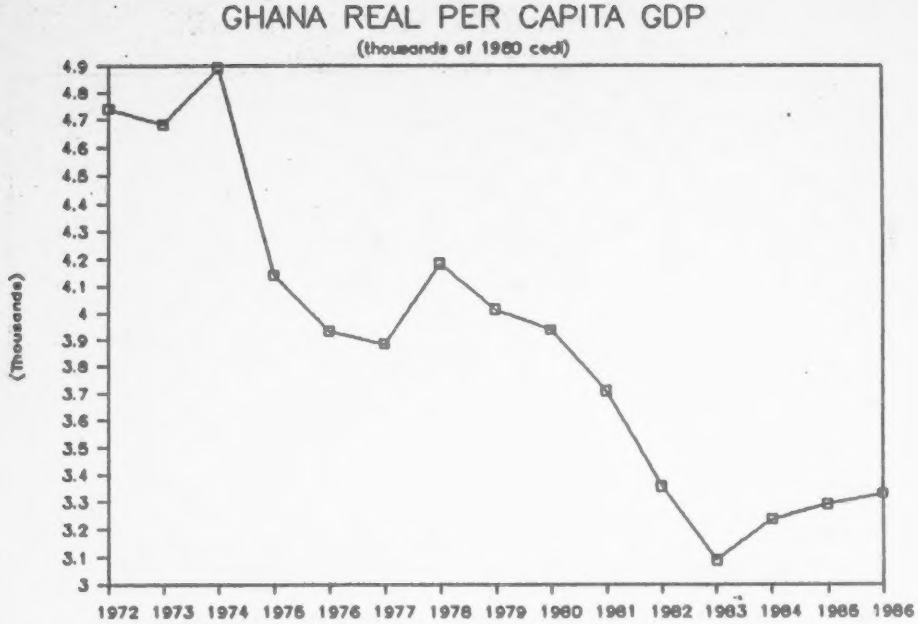
Policy makes a difference

Indicator (average annual % change)	Period	All countries: With strong reform programmes	All countries: With weak or no reform programmes	Countries not affected by strong shocks: With strong reform programmes	Countries not affected by strong shocks: With weak or no reform programmes
Growth of GDP (constant 1980 prices)	1980-84	1.4	1.1	1.2	0.7
	1985-87	2.8	2.6	3.8	1.5
Growth of export volume	1980-84	−1.3	−3.1	−0.7	−5.7
	1985-87	4.2	0.2	4.9	−3.3
Growth of real domestic investment	1980-84	−8.1	−3.7	−3.5	−7.0
	1985-87	−0.9	−7.8	1.9	−4.8
Growth of real per capita consumption	1980-84	−2.3	−1.1	−2.4	−1.5
	1985-87	−0.4	−0.5	0.7	−0.9

Note: Countries with strong reform programmes are: Burundi†, CAR, People's Republic of Congo†, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Madagascar, Malawi†, Mauritania, Mauritius, Niger†, Nigeria†, Senegal, Tanzania, Togo and Zaire. Countries with weak or no reform programmes are: Benin, Burkina Faso†, Equatorial Guinea, Ethiopia†, Liberia, Mali, Sierra Leone, Somalia, Sudan†, Zambia and Zimbabwe†. Others are excluded for lack of data. Countries affected by economic shocks (good or bad) are marked with a †.
Source: World Bank



* 32 non-oil commodities †Non-oil exports 1980 prices


GHANA REAL PER CAPITA GDP
(thousands of 1980 cedi)
(Thousands)
4.9
4.8
4.7
4.6
4.5
4.4
4.3
4.2
4.1
4
3.9
3.8
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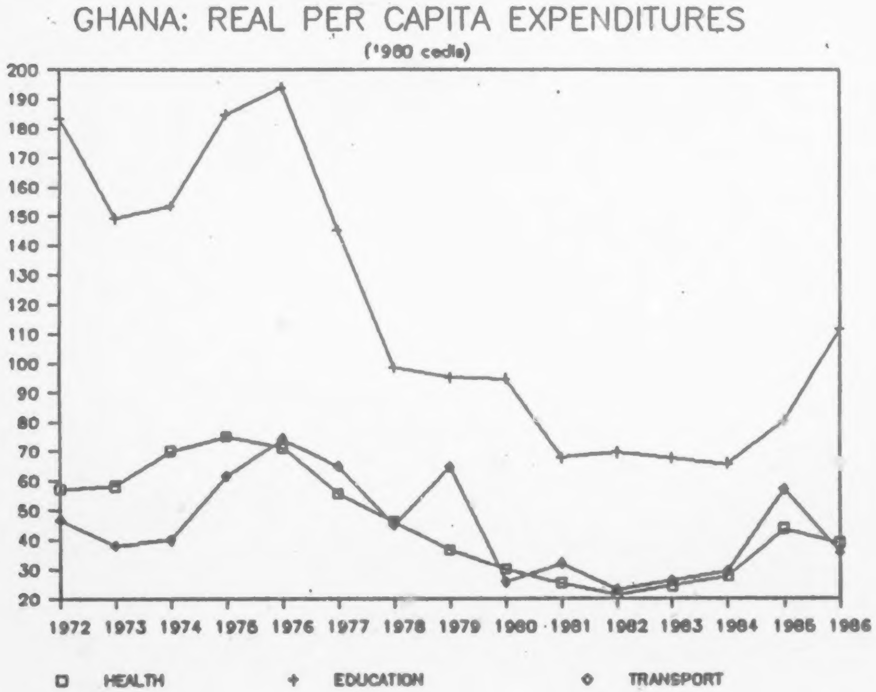
GHANA: REAL PER CAPITA EXPENDITURES
('980 cedis)
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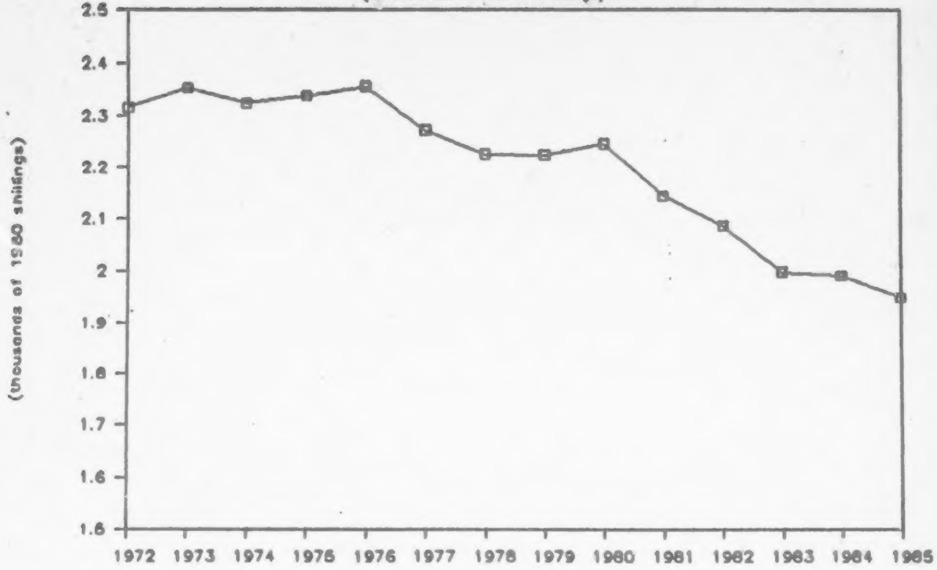
□ HEALTH
+ EDUCATION
◇ TRANSPORT

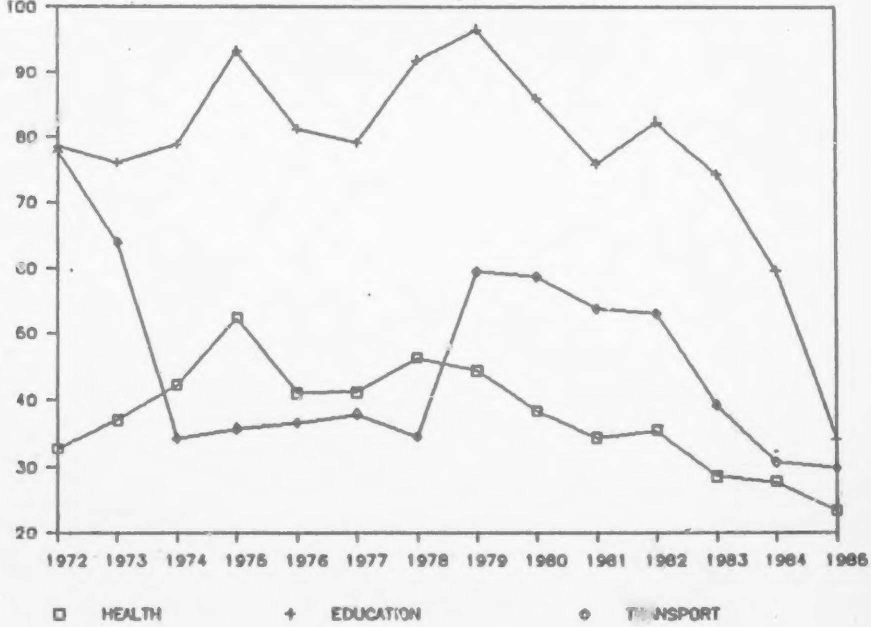
TANZANIA REAL PER CAPITA GDP

(thousands of 1980 shillings)



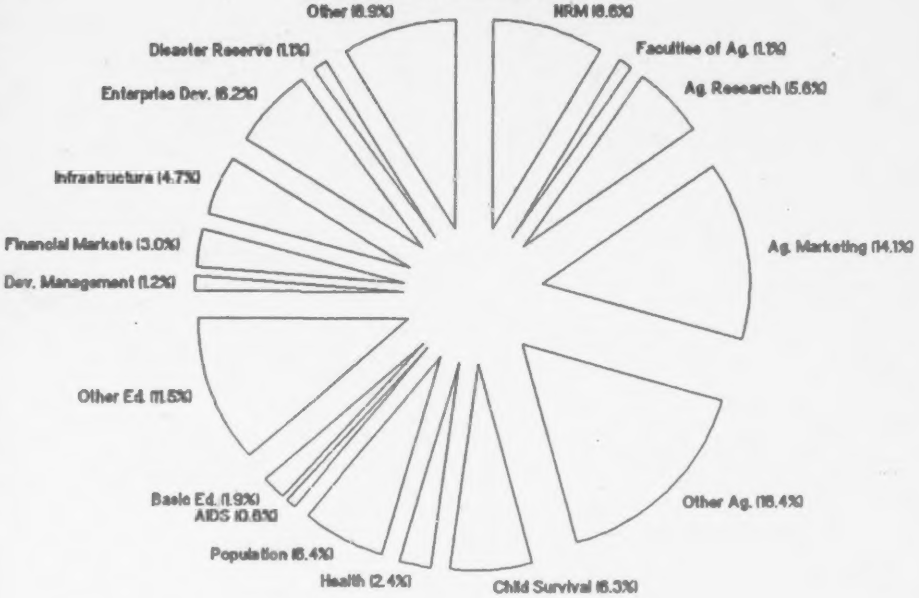
TANZANIA: REAL PER CAPITA EXPENDITURES

(1980 shillings)



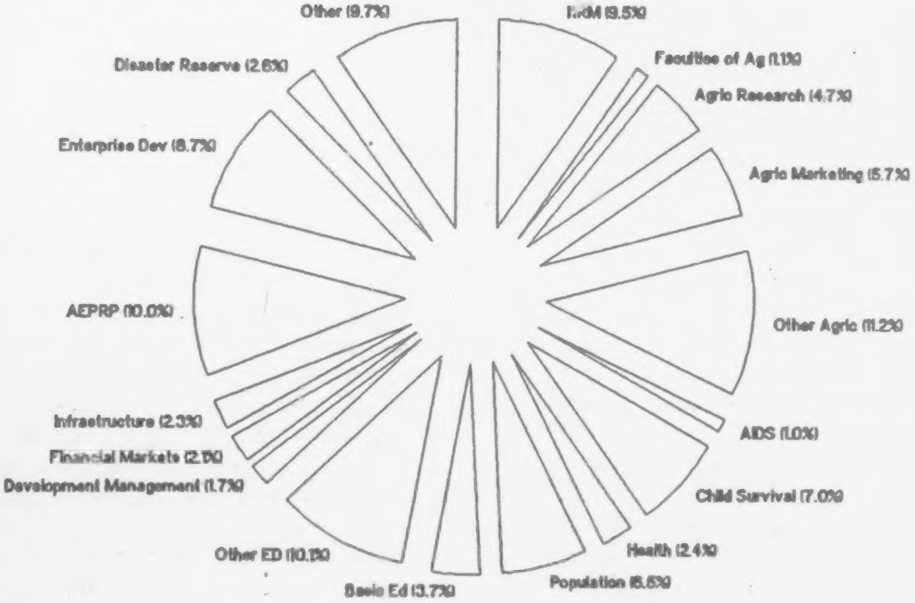
Development Fund for Africa

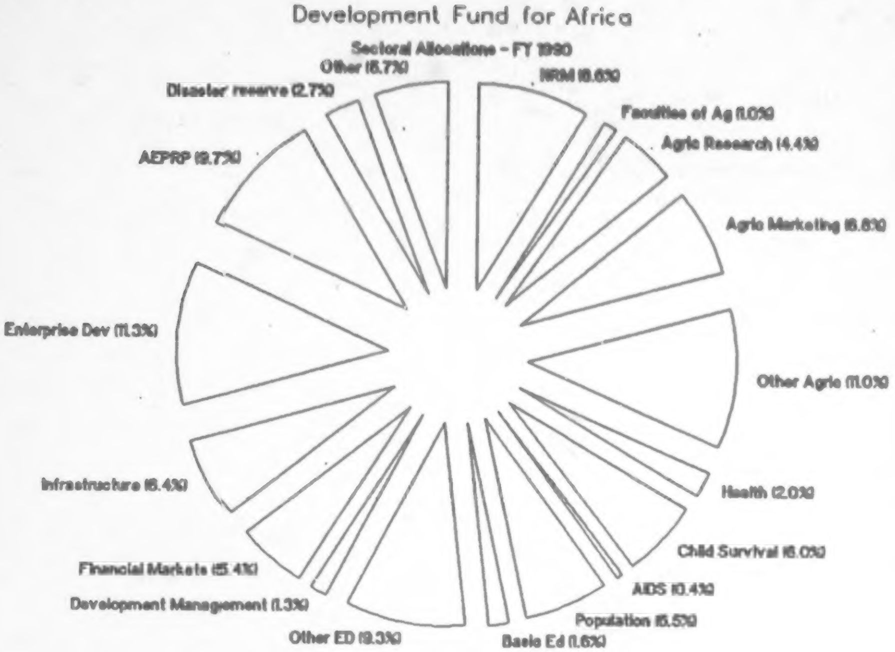
Sectoral Allocations - FY 1988



Development Fund for Africa

Sectoral Allocations - FY 1989





ENCOURAGING SIGNS IN AFRICA

Mr. Bollinger. You are absolutely right, Senator Leahy, that Africa continues to be the most impoverished region of the world. I certainly am not here today to argue that Africa has turned the corner by any means, but I think that perhaps there is a case for just a bit more optimism than you have presented. In the past few years, there have been some encouraging signs, and we believe that these are linked to policy reform, which now involves over one-half of all African countries.

I think our message this year, Senator Leahy, is that there is growing evidence that reform is paying off with measurable gains and growth in production which is benefiting the majority of Africans.

I don't want to go into a lot of statistics, but from 1985 to 1987, economic growth in countries with strong reform programs averaged 3.8 percent. It looks like 1988 is going to be an even better year. This is a substantial improvement from the 1-percent growth these countries experienced from 1980 to 1985. And it is also far superior to the continued poor performance of African countries without economic reform programs. This new growth means that reforming countries are beginning to make modest gains in per capita income for the first time in this decade.

Another little bright blip on the horizon is that food production is also up, having risen twice as fast in reforming countries as in nonreforming countries. The increase in reforming countries has been enough to raise Africa's overall agricultural production faster than population growth for the first time since 1970.

Now, this growth payoff is extremely important. It is important because growth is the key to raising living standards and meeting the social needs of Africa's people. Without economic growth, basically you can't sustain social programs. In fact, some argue that we should be worrying less about economic growth and more about providing needed social services in such areas as health and education. In our view, long-term economic growth is absolutely essential if social services are to be provided in a sustainable manner. You can start all the new health and education programs in the world with our resources, but they won't last if the underlying growth in the countries that receive these resources isn't there to keep them going.

GHANA AS AN EXAMPLE

Now, you only have to look at Ghana, Senator Leahy, to see this played out. From 1972 to 1984, when Ghana's economy was stagnant, due primarily to state mismanagement of the economy, its per capita expenditures on health and education fell by two-thirds. Since economic reform began in 1984 and economic growth improved, expenditures on health and education have rebounded by 50 percent.

This is a pattern that we are beginning to see throughout Africa. Countries that do not grow simply cannot sustain the social services.

I could talk a little bit about the development fund for Africa if you think that would be useful, or we can do that later in the discussions.

Senator **Leahy**. Let's go on to Ghana. One of the things I read over the weekend was this report, the House staff report on Ghana, among other places. It said the World Bank has been heavily involved in Ghana for 4 years, but according to the report:

> The available evidence strongly suggests that despite rising per capita growth, structural adjustment has produced little enduring poverty alleviation. Certain policies have worked against the poor. Real per capita income of the overwhelming majority of farmers has stagnated.

And in Ghana they say 40,000 people are unemployed and one of the articles I read a while ago talked about the dependents they have. Most people have probably 10 dependents who count on them to take care of their livelihood—families and so on. So, there is 40,000 times 10. But they still have some problems.

Does that contradict with what you have been saying?

Mr. **Bollinger**. It doesn't contradict it entirely, but it is a different way of looking at the problem.

Senator **Leahy**. Are you familiar with that?

Mr. **Bollinger**. Yes; I am familiar with that report.

One needs to recognize that Ghana in many ways is the quintessential reform example in Africa. Ghana has achieved 4 years of 6 percent growth. That is an astonishing accomplishment.

And we believe, as does the senior economic leadership in Ghana, that this reform program is inherently propoor. When you devalue the currency, you make capital imports more expensive, you make labor cheaper, and you create jobs for people who have not had jobs before.

When you liberalize the pricing structure in the agricultural sector, you increase prices for farm products in the rural areas where most of the people live. That creates more economic activity in the rural areas. It creates jobs. It creates higher incomes for people who have been very much left out of the development process.

It also creates the growth that is needed to sustain social programs, for example in education and health.

And if you look at the chart which was attached to my formal statement, you will see the correlation for Ghana between economic growth and expenditures on social services. So, it is hard for me to understand the argument that economic reform has a deleterious impact on poor people.

Now, that is not to say that there are not specific groups in an economy who are adversely impacted in the short term by structural adjustment. People such as salaried employees in urban areas are going to see their real income decline when price controls are lifted and they start paying the real cost of food, for example, bread products.

And what Ghana has done—and here again it is a path-blazing approach—is attempt to identify those specific segments of the economy, those specific population groups, who are going to be harmfully impacted upon by structural adjustment and to develop specific programs to help them in the short term, such as credit programs, urban and rural works programs, and feeding programs—the kinds of things that are going to be needed to put a safety net under those people who are hurt by structural adjustment. But the preponderance of evidence is that far more poor people benefit from structural adjustment than are hurt by structural adjustment.

DEVELOPMENT FUND FOR AFRICA

With last year's appropriations act, Africa got a special account, the development fund for Africa, that your committee was instrumental in creating and of which we are very appreciative. This account did a number of things, including the abolition of the functional account structure, so that we have much greater flexibility now in administering our African aid programs than we had before.

And I just wanted to tell you that we think that this development fund for Africa, or DFA, has been a marvelous innovation and very helpful to us. It has made it easier for us to concentrate our resources in those countries where good performance is taking place. One of the principles of programming resources under the DFA is good performance, and so we have been able to move in a relatively quick way to allocate resources to countries which are making a greater effort to help themselves.

It has also made it easier for us to concentrate our resources on the problems of the country rather than worrying about whether we are going to have to allocate resources in each of the functional accounts, such as agriculture, health and education, as we have in previous years. So, in that sense, it has been very helpful to us.

And it has also been very important in helping us play a more high-profile role in donor groups because we have this kind of flexibility. We have been able to move resources to support the World

Bank's special program of assistance for reforming countries, for example, and that has been a very useful innovation.

But the real benefits of the development fund for Africa are yet to come. You can only do so much in 1 year. I don't have to tell you what it takes to move bureaucracies in a direction from which they have been headed. And so, we have a lot of work ahead of us.

BUDGET REQUEST

Let me just make two quick additional points, if I could.

The first concerns our requested funding level. You pointed out how Africa by comparison to Central America doesn't seem to be getting a fair share of the overall resources. Our hope, our great hope, is that we can avoid a reduction in the DFA in this year of tight budgetary resources. And I just want to point out that the United States has already dropped from being the second largest donor in Africa in 1985 to being the sixth largest donor today.

Senator Leahy. Who are the five others?

Mr. Bollinger. France is the largest bilateral donor. France provides approximately $2.2 billion in assistance to Africa.

Senator Leahy. But they also have very structured ties.

Mr. Bollinger. Yes; that's correct.

Germany is providing a large amount of assistance. Italy provides a larger amount of assistance than we do. If you take the Scandinavian countries combined, that group, Norway, Sweden, and Denmark, provide a larger amount of assistance to Africa than the United States.

Senator Leahy. Does Japan?

Mr. Bollinger. Japan is increasing its share of resources to Africa. Japan just this year agreed to allocate $500 million over a 3-year period in untied assistance to Africa, and we were very pleased to see that happen. We were part of the United States Government effort to help the Japanese see their way through to doing that.

But when you take it all together, the United States Government currently provides only 7 percent of official development assistance to Africa. So, we are not a major player. Where we derive the strength of our influence is in the flexibilities that we have with the DFA, the quality of our assistance, which enables us to play a role greatly out of proportion from the actual size of the assistance we are providing.

And the second point, sir, flows from the first point, and that is in order to make the most out of our relatively modest allocation of aid resources for Africa and to achieve the objectives we have set for the development fund for Africa requires a different mix of skills than 10 years ago. And this new mix of skills and additional high-quality people to direct our programs comes at a time when our own operating expense budget is under threat.

I just want to make a special plea for our operating expense budget. If that is cut, that translates into a more difficult time for us to make what use we can out of our economic assistance resources.

Senator **Leahy**. In that regard, maybe later today we can go over some of the small print from the budget summit agreement that was announced at the Rose Garden on Friday.

I strongly suggested to the White House that they stop campaigning for a line item veto, but instead just send up a line item budget. [Laughter.]

But you do not have to defend that. We'll let Ms. Rosenberg defend it afterward. [Laughter.]

Mr. **Bollinger**. But before I turn this over to Alison, let me just say that we at AID in the Africa bureau are very much appreciative of the regular consultations which we have held over the past year with your committee and others. We think that this has been a very beneficial exercise in terms of improving communications, and we would like to see it continue. We hope there are additional ways we can try and reduce some of the paperwork that consumes us to such a large extent. Thank you for the opportunity to share these views on the development fund for Africa.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. Thank you very much.

We would like to submit to you and your staff questions for responses.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

AGRICULTURE

SENATOR LEAHY: A.I.D.'s overall request for "Agriculture, Rural Development and Nutrition" is 3.2% less than in FY 89. (From $493 million in FY 89, to $477 million for FY 90.) What effect will this have on your agriculture programs in sub-Saharan Africa? Will that cut-back be felt there? Is this the direction we want to go?

ANSWER: The small decline in the FY 1990 request from the FY 1989 funding level for "Agriculture, Rural Development and Nutrition" will not have a significant effect on A.I.D.'s agricultural programs in sub-Saharan Africa. Development assistance programs in sub-Saharan Africa are funded primarily under the separate Development Fund for Africa (DFA), rather than through the Functional Accounts. The single-account DFA gives us the flexibility to build our programs on a country-by-country basis, in accordance with an analysis of each country's particular needs and economic performance. It enables us to allocate our resources in a way that responds most effectively to the particular socio-economic context and circumstances of the more than 40 African countries where we have bilateral development assistance programs.

This programming process may result in some year-to-year variation in the level of resources allocated to a particular sector, including agriculture. Moreover, yearly allocations also reflect A.I.D.'s need to reconcile its limited overall resources with Congressional mandates and special concerns in a variety of areas such as health, child survival, population, natural resources management and basic education. Nonetheless, support for programs in agriculture and natural resources remains a high priority for sub-Saharan Africa under the DFA, and we do not foresee any major change in program direction in the future.

ASSISTANCE FOR ANGOLAN WAR VICTIMS

SENATOR LEAHY: A.I.D. is currently providing emergency food to Angola through UNICEF. Recently, A.I.D. sponsored a mission of U.S. private voluntary organizations to Angola, to assess what additional humanitarian aid we could provide. One of the things that mission suggested was assisting the tens of thousands of civilian amputees--mostly victims of land mines. I would like to see if a portion of the War Victims Fund could be used in Angola. Is this something A.I.D. would support, if it could be done through a PVO or an international organization like the Red Cross?

ANSWER: We certainly agree that Angolan amputees, like those of other war-torn African countries, have a real need for prostheses. But A.I.D. is giving higher priority to developing prosthetics programs in Uganda and Mozambique, where we have diplomatic relations and USAID field missions. These countries also appear to have more PVOs and more medical facilities to implement prosthetics programs.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

POPULATION AND FAMILY PLANNING

SENATOR MIKULSKI: Isn't it true that the success of all aid programs in Africa depends on controlling the birth rate? How can we justify reducing population assistance funding from $81 million in FY 1986 to an estimated $64 million in the current fiscal year?

ANSWER: Very high birth rates in Africa no doubt greatly impede development by intensifying maternal and child health problems, increasing dependency burdens in homes and in schools, and constraining the mobility and economic productivity of women. However, broad progress in development must be achieved to encourage transition to lower fertility, to assure survivability of offspring and to provide alternatives to high fertility as sources of personal gratification. Improvements in infant/child survival and education over the past thirty years no doubt contributed to recent significant declines in fertility revealed in large surveys in 1988 and 1989 in Botswana, Kenya and Zimbabwe. Censuses and surveys now underway should document declines in other countries.

In the single year 1986 the Agency's appropriation for population was raised markedly. Obligations actually amounted to about $90 million for activities in Africa. Many projects funded that year had significant elements of family planning, but most supported other related activities like primary health care, which is what African leaders four years ago were insisting upon. Funding of "bilateral" population projects has remained in the mid-$30 millions over the period, FY87-90.

The past three years witnessed marked movement towards national policies favoring family planning and considerable progress; prevalence of use of contraception increased in many countries. Over two-thirds of the people of sub-Saharan Africa live in countries now receiving substantial A.I.D. population assistance, and virtually all large, eligible countries have population projects. However, actual absorptive capacities for family planning are limited. In fact, the level of A.I.D. obligations exceeds expenditures, resulting in a growing "pipeline" of funds. New approaches involving budgetary support will provide an important complement to traditional, U.S.-based technical assistance projects in the near future.

The Africa Bureau believes that focusing on dollar amounts committed is too often misconstrued as evidence of commitment or lack thereof. For example, much of the Bureau's policy dialogue on population has virtually no dollar commitments attached to it, yet it has been quite successful as evidenced above. Qualitative results are far more important than quantity of funds. Results now suggest that fertility decline occurs in the context of broad socio-economic development, accelerated by strong, appropriately scaled programs for services.

AFRICA BUREAU'S WOMEN IN DEVELOPMENT INITIATIVES

SENATOR MIKULSKI: What has the Africa Bureau done to increase the participation of women in its programs? Please give specific examples. What directives have you given to Africa field offices? How have you followed up personally?

ANSWER: The Africa Bureau has adopted a number of measures to improve the level of women's participation in its programs and projects. Such measures include the following:

In 1986, the Africa Bureau formed a Women in Development (WID) Working Group, which is responsible for: (a) identifying overall Bureau initiatives and developing guidelines to ensure that WID concerns are adequately addressed in the Bureau's programs and projects; (b) monitoring the implementation of such initiatives and guidelines in Washington and in the field; and (c) responding to missions' requests for assistance in carrying out the Bureau's WID mandate.

Recognizing that high-level commitment to WID objectives is essential to the improvement of women's involvement in A.I.D.'s programs and projects, the Africa Bureau's Office Director of Project Development was designated as the Bureau's WID officer and chairperson of the WID Working Group. Similarly, in response to a Bureau directive, field mission WID officers now consist of senior-level A.I.D. personnel with broad programming responsibilities.

In 1987, the Africa Bureau developed a WID action plan -- the first in A.I.D. -- which lays out the Bureau's WID strategy, objectives and planned initiatives. A WID action plan is now a required program document for all A.I.D. bureaus and field posts worldwide.

In September 1987, the Africa Bureau held a WID training workshop in Nairobi, involving mission program officers in East and Southern Africa and agricultural development officers Africa-wide. Similar workshops will be held this year and in 1990 in West and Southern Africa and in the Washington area, for program and project officers, mission directors, technical officers, and A.I.D. contractors who have not received WID training.

The Africa Bureau will soon implement a project which will provide the Bureau and its field posts with additional full-time technical assistance to carry out A.I.D.'s WID mandate.

As a result of the initiatives discussed above, the Africa Bureau is beginning to see encouraging results, Some examples include the following:

In Senegal, over 60% of short-term participant trainees sponsored by A.I.D. in 1988-1989 are women. USAID/Dakar intends to maintain this proportion in the coming years, and to make renewed efforts to achieve the same outstanding accomplishment in its long-term training program.

The Malawi Agricultural Research and Extension project (MARE) was designed to disaggregate research data by gender, and to enable women farmers to collaborate with research scientists in technology development. Such initiatives were envisioned to ensure that women's socio-economic and technical constraints in growing maize and other crops are adequately addressed in the technology development process. The project was also designed to include long-term technical assistance to reorient Malawi's extension system in a way that effectively meets women farmers' agricultural extension needs. Finally, the MARE project design set a target of allocating at least one-third of the project's training resources for women. A recent evaluation commended the MARE project for its successful efforts at increasing the level of women's participation in, and benefits from, the country's research and extension systems.

In Rwanda, the A.I.D.-funded Fish Culture project has successfully involved in its technical assistance activities, eleven women-owned fish cooperatives with approximately 235 members, and 34 women/men-owned fish cooperatives with 265 female members. Further, because the project has employed a highly effective female training advisor, approximately 1,000 women receive a combination of fish culture and nutrition training from the project annually.

USAID/Lesotho is working with the Government of Lesotho to determine how the the traditional Basotho law, the Roman/Dutch law, and current government policies can be modified to improve women's involvement in the country's economic development programs. In the area of financial market development, 60% of the resources allotted for USAID/Lesotho's credit union development activity have gone into meeting the training and technology needs of female members and managers of Lesotho's credit unions. In education. over half of the students of the Tseka Skills Training Center, a non-formal educational institution which receives support from A.I.D., are female students with ages ranging from 14 to 45.

Under the Zaire Family Planning Services project, family planning and AIDS information activities target both men and women with gender-specific messages. In order to accomplish this task effectively, special measures were taken to include women in the project's professional staff. To date, women make up 28% of the staff, a remarkable accomplishment in Africa where professional women are rarely involved in management positions.

Regarding directives to Africa field offices to increase women's participation in A.I.D. programs, the Africa Bureau WID action plan guidelines specifically direct each mission to:

(1) ensure that the percentage of women involved in their country programs and projects, including A.I.D.-funded training activities, is at least in approximate proportion to women's traditional participation in the targeted activities;

(2) reflect WID concerns in policy dialogues with host countries in order to address policy-related impediments to women's full and productive involvement in the economic development process;

(3) disaggregate program- and project-related information, by gender, where appropriate;

(4) develop systems for monitoring and reporting on mission progress in meeting A.I.D.'s own WID objectives, and report mission progress in implementing WID strategy on a regular basis, through the annual budget submission and bi-annual project implementation review processes.

I personally follow up on these initiatives in a number of ways, including: (a) periodic reports which I receive from the Bureau's WID officer; (b) regularly scheduled meetings with the Bureau's office directors, which include the WID officer; and (c) mission program review meetings, which I chair, and during which the missions' WID action plans are discussed.

REVOLVING CREDIT FUNDS IN AFRICA

SENATOR MIKULSKI: Does the U.S. help establish revolving credit funds in Africa patterned after the Grameen Bank in Bangladesh? If so, how many, and how are they working? If not, why not?

ANSWER: For many years, the Bureau for Africa has supported credit unions and credit union development throughout Africa. A.I.D. has supported credit unions in individual countries, as well as credit union associations such as the World Council of Credit

Unions and the African Confederation of Cooperative Savings and Credit Associations, which service these country-based credit unions. These credit unions provide funds to many of the same types of individuals as supported by The Grameen Bank.

The Bureau for Africa also has rural credit projects targeting the poor including rural credit development projects in Senegal and Kenya.

The Bureau has microenterprise projects in 23 African countries. These projects provide technical assistance, training and credit to enterprises of generally 10 or fewer employees.

A.I.D.'s recent stock-taking report of its microenterprise activities indicated that over 40% of the beneficiaries of these programs are women.

BUDGET ALLOCATIONS

SENATOR MIKULSKI: In its Congressional Presentation A.I.D. has indicated that it intends to concentrate most of its resources in those countries with the greatest potential for economic growth, and I note that over half of DFA funds will go to only ten countries, with 80% going to twenty countries.

On what basis are countries chosen as recipients -- purely economic considerations, or political? Did A.I.D. make a conscious decision to allot 80% of the funds to twenty countries, or are there only twenty countries in a position to make good use of the aid?

ANSWER: The twenty countries which are in our categories I and II are there solely because of their potential for economic growth. Every low income African country (except Nigeria) with population above six million which is implementing a policy reform program is included. Also included are five smaller countries which (1) have a good policy environment or are making substantial changes and (2) have been recipients of U.S. assistance historically. There are good performing small countries (such as Central African Republic or Sao Tome) which are not included in our top twenty because we have limited experience working there and serious management constraints in expanding beyond the current list. Given Africa's complexity, it is clear to us that we cannot be effective if we scatter our resources (particularly management time) over a large number of countries. Even twenty may be too many.

ACCOUNTABILITY UNDER THE DFA

SENATOR MIKULSKI: In the Congressional Presentation you state that "...A.I.D.'s resources are being more integrally blended with those of the recipient public and private organizations to permanently alter the way that production and social systems function."

Under this approach, how do you provide accountability for these funds? Given the monstrous level of corruption in Africa, what's to keep these funds from ending up in the pockets of the wabenzi?

ANSWER: A.I.D. continues to stress accountability in all its programs. The blending of resources through more collaborative programming of funds with the host country government, the other donors, and the Private Voluntary Organizations (PVOs) has strengthened individual and overall accountability through increased management oversight. In addition, Missions are aware of the need to make certain that funds are used as intended, both U.S. dollars and local currency. Missions have significantly increased their use of public accounting firms to review the internal control systems and the performance of the implementing agencies.

WEST AFRICA RICE DEVELOPMENT ASSOCIATION

SENATOR MIKULSKI: What is the status of A.I.D. funding for the West Africa Rice Development Association?

ANSWER: From 1975 through 1986 A.I.D. supported rice research in the West Africa region with project assistance to the West Africa Rice Development Association (WARDA) totaling approximately $17 million. A.I.D. contributions represented about 25% of WARDA's annual budget and focussed on the association-wide technology assessment and transfer program, the training center, and financing of operations at the Rokupr, Sierra Leone and Mopti, Mali Stations. It was concluded during that effort that WARDA would have to undertake significant restructuring in order to meet internationally accepted standards for agricultural research.

A.I.D. is encouraged by the recent improvements in the operations and management of WARDA, which have resulted in their being accepted as a full member of the Consultative Group on International Agricultural Research (CGIAR) under World Bank leadership. These improvements are reflected in WARDA's Strategic Plan: 1990-2000, which was approved by the CGIAR. WARDA has been officially given the mandate for rice research in Africa by the CGIAR. Other CGIAR institutions will transfer their research programs in upland rice research to WARDA during the next three years. The Cote d'Ivoire government has donated roughly 3,000 acres of land for the future WARDA station. Donor pledges to WARDA have been sufficient for the past year to meet core budget requirements.

The Africa Bureau has been supporting the on-going research work on mangrove rice at the WARDA Rokupr Station in Sierra Leone. The activity was authorized for two years and $1.4 million on September 9, 1987 as a subproject of the regional Strengthening African Agricultural Research and Faculties of Agriculture Project (698-0435) and the subproject has been extended by one year and is funded to September, 1990.

The economic role that increased rice production could play in import substitution in West Africa is significant. We are concerned that the groundwork is being laid for technological improvements leading to rice production increases.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

PERFORMANCE BASED PROGRAMMING IN THE DFA

SENATOR KASTEN: Programming DFA funds on the basis of the progress of economic reform has caused you to reduce assistance to countries like Somalia, Liberia and Zambia. Countries like these which perform the least, however, often need assistance the most. There would seem to be a danger that those countries which perform poorly will continue to do so to the point where a later rescue will be extremely difficult.

Is performance-based programming a philosophy of approach which you intend to continue taking indefinitely?

ANSWER: Clearly, we believe that performance-based programming is a system we should adhere to indefinitely. We don't have a lot of money to use to advance development in Africa, a little more than a dollar per capita. We feel we must use each dollar so as to achieve maximum effectiveness. Experience has shown us that growth cannot take place in economies which are badly mismanaged. We would be wasting the taxpayers' dollars.

On the other hand, we believe that there are interventions which can help improve long-run development prospects in a badly managed economy. So we've divided our budget into a core which is allocated on the basis of need and an enhancement which is allocated on need and performance. Countries with bad economic policies still receive a core budget which is allocated to such long-run development activities as family planning and human resource development.

Finally, I should note that there is a real danger that assistance to non-performers can put off the day of adjustment and thus deepen the trough and prolong the recovery period.

SENATOR KASTEN: How often will you evaluate the progress of various countries and determine where you will concentrate your efforts?

ANSWER: A.I.D. has an annual budgeting process which permits us to examine the economic performance and the need for assistance in various countries and to assess where redirection of A.I.D. resources over the coming two-year period is appropriate. We make this assessment based upon information provided by the A.I.D. Missions in each country, data available from collaborating institutions, such as the World Bank and the International Monetary Fund, and from general familiarity of Washington staff with various aspects of the Africa Bureau program.

The results of this annual budgeting exercise are, however, adjusted throughout the year to reflect changing conditions in the recipient African countries and, perhaps most importantly, our A.I.D. Missions' judgments as to where the investment of time and money will contribute most effectively toward assisting the recipient countries to achieve sustainable, broad-based, market-oriented economic growth. As a result of these assessments, not only are budgetary and personnel resources reallocated among countries, but they are also redirected for more effectiveness within countries -- from one sector to another, from one problem area to another.

These judgments are based upon: more or less continuous monitoring of project and program activity being supported by the Mission, periodic evaluation of key activities, consultations with other donors, independent staff analyses of the local situation, and, again, most importantly, through continuous contact and dialogue with recipient country government representatives and citizens.

Consultation between field Missions and A.I.D./Washington is continuous with regard to implementation issues and crisis situations. We have also taken steps to improve periodic consultations to review systematically the contribution which the A.I.D. assistance programs in key African countries are making to the progress of those countries. This enables us to more closely link our own performance to that of the countries receiving assistance and to make this assistance as effective as possible.

All of these mechanisms are -- and will continue to be -- used by A.I.D. program managers both in Washington and in the field to evaluate progress being made in various countries and to determine where A.I.D. efforts can best be concentrated.

FUNCTIONAL ACCOUNTS

SENATOR KASTEN: Ambassador Woods has said, and you have repeated, that you prefer the flexibility the DFA gives you to having to justify your expenditures by function. Ambassador Woods has also said that he would like the Agency to concentrate its efforts on specific activities, like oral rehydration and certain agricultural programs.

Can you clarify for us how you intend to account for your movement or progress on specific programs, as well as in the DFA in general, without the use of functional accounts? How will you and we know what you are doing and how well?

ANSWER: We in A.I.D. believe our progress is not measured simply by the amount of money spent on an activity. Under the DFA, instead of focusing on spending the required levels on each account, we will try to measure progress on specific objectives by looking at the impact of our programs.

We have taken the increased flexibility of the DFA as an opportunity to rethink the emphases of our program. We have, during this first year of implementing the DFA, selected four strategic objectives to guide our programming over the FY 1989 - 1991 period as part of the Bureau's Action Plan:

1. Improving the management of African economies by redefining and reducing the role of the public sector and increasing its efficiency;
2. Strengthening competitive markets to provide a healthy environment for private sector-led growth;
3. Developing the potential for long-term increases in productivity; and
4. Improving food security.

In the DFA Action Plan, we detail the rationales for selecting these objectives and the specific areas (or "targets") on which we will focus in pursuing them.

Over the coming year, we plan to develop the baseline data needed to refine the targets and to identify feasible and useful indicators by which to measure progress toward the objectives of the DFA as a whole. We also plan to identify those countries in which special efforts to track these indicators systematically will be made. We will work closely with Missions to accomplish this, augmenting the Missions' own monitoring and evaluation programs to facilitate our tracking of progress in implementing the DFA as a whole.

Assessing the progress of country assistance programs in accomplishing the goal and objectives of the DFA is in large measure the responsibility of the Missions themselves. However, a process of periodic consultation on program planning and performance between A.I.D./Washington and Mission staff as well as the semi-annual reviews of progress in project implementation will help to ensure that the selected areas of emphasis are appropriate and the desired impact of improving Africans' lives through broad-based, sustainable, market-oriented economic growth is being achieved.

DFA EFFECTIVENESS

SENATOR KASTEN: Over the last 15 to 20 years, A.I.D. has emphasized the importance of project evaluation, and has established mechanisms and procedures to facilitate that end. The Africa Fund makes use of far more program assistance than project assistance, however.

Do you think that program assistance will be more effective in Africa than project assistance has been, and will the effectiveness of program assistance be easier to assess? Why?

ANSWER: Over the years, A.I.D. has come to the conclusion that project assistance alone is not sufficient to help African countries to achieve economic development which is broad-based and sustainable. Project evaluations have played an important role in providing the information on project effectiveness and impact which led to this conclusion. Evaluations have consistently shown that without host government commitment and sustained financing to public programs, incentives in the economy which stimulate private sector investment and savings, and a political and social environment that encourages all people to participate in the process of development, externally-funded projects could succeed in a limited way but would not be sustained long enough or reach wide enough to achieve the kinds of objectives set for them at the outset. As we began to understand better these constraints to project effectiveness, the African Economic Policy Reform Program (AEPRP) and other program assistance mechanisms were increasingly used to help African governments to reform their policies, to deal with the financial crises to which inappropriate policies had contributed, and to put in place the kind of policy framework which would mobilize private as well as public interests. As the policy environments become more conducive to growth, we expect both program and project assistance to have greater impacts.

As the amount of program assistance has increased, A.I.D. has, of course, extended its monitoring and evaluation efforts to assess the effectiveness of this assistance. For example, an A.I.D.-sponsored evaluation of the fertilizer program in Kenya has provided farm-level impact data that demonstrated that privatization of fertilizer provided expanded supplies and greater access to small farmers. But, given the newness of these initiatives, and the wide-ranging nature of the impacts expected, we have not yet completed many of the kinds of evaluations which would enable us to relate policy reforms, for example, to the number of jobs created by private sector entrepreneurs. These evaluations require the application of evaluation techniques which go beyond those which A.I.D. has used routinely for project evaluations. Program assistance will be more difficult to assess because the links between the assistance and the impact are more indirect and more complex. Clearly, we will build on the 15 to 20 years of project evaluation experience in developing approaches and techniques which work. The Africa Bureau has renewed its commitment to evaluation, and it will continue to explore the most effective and efficient ways to gauge the impact of our program assistance.

DFA EFFECTIVENESS

SENATOR KASTEN: Please detail for us the guidelines, mechanisms and procedures A.I.D. has developed to evaluate the effectiveness of program assistance.

ANSWER: The Bureau has attempted to assure that we have monitoring and evaluation systems built into each program activity that allow us to evaluate the impact and effectiveness of our program assistance. Our goal in monitoring and evaluation is not simply to measure the extent to which the planned activities have been carried out, but to measure the overall results.

The Bureau has systematically worked with individual missions to define strategic objectives for the aid program in terms of achieving those impacts. For example one important strategic objective for the Rwanda mission is to sustain food production through the year 2000 at a rate at least equal to the population growth rate, which now means at the rate of at least 3.5 percent per year. In order to sustain the food and population balance, the mission has a target, among others, that farmers use technologies that will increase production but conserve resources. Otherwise the increases will not be sustainable according to the mission's analysis. The mission has said that as a benchmark for the population target, they expect 1000 farmers in pilot areas to be using productivity increasing, resource-conserving technologies and practices in two years. If the mission's monitoring and evaluation show that the farmers are using these technologies, then we can expect that Rwanda is making progress in achieving their strategic objective, i.e. sustaining the balance between food and people. In the past three months, the Bureau has worked closely with six of the 20 priority missions to put this kind of system into effect.

The Africa Bureau is putting into place a detailed system of baseline and progress measurement. The largest of these efforts is with Cornell University that will look at how reform programs affect people. The study will collect and analyze household data in approximately seven countries to determine the impact of the reform program at the grassroots level and provide an economic model in which active and proposed programs can be analyzed as to their impact on selected income groups, with special emphasis on the poor. Countries selected so far for inclusion in this study are Cameroon, The Gambia, Guinea, Malawi, Niger, and Zaire. Other countries being considered are Madagascar, Tanzania, and Ghana.

Details of the guidelines and procedures for evaluating A.I.D. projects are spelled out in the A.I.D. Evaluation Handbook, April 1987. It requires that there be ongoing monitoring and periodic evaluation of both the intended and unintended consequences of A.I.D. projects and programs. Specific Africa Bureau evaluation guidance is being redrafted and will reinforce these principles for program assistance as well.

COORDINATION OF DFA AND OFDA ACTIVITIES IN CONTROL OF LOCUST PLAGUES

SENATOR KASTEN: Given the limited funding for Africa relative to her need, we are convinced of a need for activities in Africa through the varied A.I.D. accounts which are mutually reinforcing. For example, OFDA funds have been used many times for the eradication of locusts, but have DFA funds been used to anticipate and prepare for these plagues to lessen their effect?

ANSWER: Yes, since its inception in FY 1988, Development Fund for Africa (DFA) funds have been used to anticipate and prepare for locust and other plagues in Africa. The Africa Emergency Locust-Grasshopper Assistance Project carries out major surveys and control activities undertaken by host countries and international donors, expands and enhances activities to provide early warning, establishes standards and criteria for control of migratory pests, provides resources for locust control, trains and develops host country organizations and human resources, and encourages neighboring countries to plan and undertake cross border control operations. The Famine Early Warning Project aims to anticipate and pinpoint localities and populations which are vulnerable to hunger emergencies due to natural causes, such as drought or locusts in order to help donors and host country decision makers in planning and initiating actions to avert famine. For both of these projects, under the DFA, the Africa Bureau obligated $8.083 million in FY 1988 and plans to obligate $9.377 million in FY 1989. Additionally, the Africa Bureau obligated $2.8 million in FY 1988 for the Locust/Grasshopper Assistance project under the Sahel regional account.

RECURRING NEEDS IN AFRICA

SENATOR KASTEN: Please outline some of the recurring needs that OFDA has had to address in Africa in the last several years. Then, detail for us the level of funding that the Africa Bureau has expended to eliminate the causes of each of these recurring needs.

ANSWER: Some of the recurring needs that OFDA has addressed in Africa in the last several years are drought, locusts, floods, displaced persons and food shortages.

The Africa Bureau is making efforts to eliminate the causes of these recurring needs with three major initiatives:

— The Emergency Locust/Grasshopper Assistance Project, which carries out major surveys and control activities undertaken by host countries and international donors, expands and enhances activities to provide early warning, establishes standards and criteria for control of migratory pests, provides resources for locust control, trains and develops host country organizations and human resources, and encourages neighboring countries to plan and undertake cross border control operations. For this project, the Africa Bureau (under the DFA) obligated $8.083 million in FY 1988, and plans to obligate $6.04 million in FY 1989.

— The Famine Early Warning Project, which aims to anticipate and pinpoint localities and populations which are vulnerable to hunger emergencies due to natural causes, such as drought or locusts in order to help donors and host country decisionmakers in planning and initiating actions to avert famine. For this project, the Africa Bureau carried out activities under the Emergency Locust/Grasshopper Assistance project (above) in FY 1988, and (under the DFA) plans to obligate $3.337 million in FY 1989.

— The Natural Resources Management project in the Africa Bureau, which provides for the elimination of resource degradation and helps mitigate such emergencies as floods, droughts and displaced persons. For the regional Natural Resource Management project, the Africa Bureau (under the DFA) obligated $3.286 million in FY 1988 and plans to obligate $3.38 million in FY 1989.

BASIC EDUCATION FUNDING IN THE DFA

SENATOR KASTEN: As you know, this Committee's concern about A.I.D.'s lack of emphasis on basic literacy and numeracy in Africa has resulted in several earmarks, the latest of which will be effective through 1991. The DFA level of spending for Basic Education is projected to shrink from 3.7% in this fiscal year to 1.6% in 1990, quite against the principle of the earmark.

What does this reduction in DFA funds for Basic Education indicate about A.I.D.'s seriousness in confronting illiteracy rates which in some African countries hover between 80 and 90 percent?

ANSWER: A.I.D. plans to meet the basic education earmark for FY 1989 through FY 1991 and in doing so Africa Bureau will increase its spending on basic education. In FY 1989, Africa Bureau obligations will increase to a projected $24 million from a FY 1988 level of $9.6 million. FY 1990 and 1991 will also reflect increases associated with two new education projects for each of those fiscal years. The budget figures that reflect decreasing support to basic education did not include data on projected new starts.

To illustrate A.I.D.'s seriousness in confronting illiteracy in Africa, the Africa Bureau will obligate two new Basic Education projects in FY 1989. The original Congressional earmark called for one new start in Africa in FY 1989. The new starts will be in Swaziland and Mali. In FY 1990, plans call for two new Basic Education projects in Africa. The countries currently under study are Malawi and Ghana. Several other countries are being considered for new projects in FY 1991.

SENATOR KASTEN: Do you expect to see sustained progress in Africa in most sectors when most people in Africa cannot read or perform the most basic mathematical functions? Who will make all the progress?

ANSWER: Clearly high rates of illiteracy are a major obstacle to sustained growth in any country. The Africa Bureau recognizes this constraint and is addressing the problem of low levels of literacy and numeracy through support to formal basic education programs in seven countries and through support to adult literacy and numeracy activities in a number of other countries (e.g. Lesotho and Niger). Our general position is that we believe strongly in the importance of literacy as one of the essential needs for full participation by individuals in all aspects of development. However, our priority is the education of children as both the first claim on public education resources and as an essential part of any long-term strategy for reducing adult illiteracy.

We anticipate at least four new basic education projects in the next two fiscal years which will substantially increase our direct support to improving literacy and numeracy rates in these target countries. We are collaborating with the World Bank to leverage our funds in the education sector to collectively enhance the quality of African educational systems and to expand the access of schooling where this is a problem.

The fundamental problem for basic education improvements in Africa is related to a lack of host country budget resources to finance needed education. An entire class of 30 students could have not more than $1,000 per year available for its support from teachers' pay to central ministry administration. To get fundamental broad improvements in education will require vast improvements in efficiency and a robust record of economic growth to generate the necessary domestic resources. Both of these are major items of A.I.D.'s agenda for Africa.

DEPARTMENT OF STATE

BUREAU OF AFRICAN AFFAIRS

STATEMENT OF ALISON P. ROSENBERG, DEPUTY ASSISTANT SECRETARY

ACCOMPANIED BY:

- **GREGORY H. BRADFORD, DEPUTY DIRECTOR, OFFICE OF REGIONAL AFFAIRS, BUREAU OF AFRICAN AFFAIRS, U.S. DEPARTMENT OF STATE**
- **VINCENT D. KERN II, DIRECTOR, AFRICA REGION, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE, INTERNATIONAL SECURITY AFFAIRS, U.S. DEPARTMENT OF DEFENSE**

PREPARED STATEMENT

Senator LEAHY. Ms. Rosenberg, thank you for coming here. We'll put your statement in the record so we can proceed with questions.

[The statement follows:]

STATEMENT OF ALISON P. ROSENBERG

IT IS A PLEASURE TO BE HERE AS THE BUSH ADMINISTRATION BEGINS TO ADDRESS THE CHALLENGES AND OPPORTUNITIES THAT WE HAVE BEFORE US IN OUR POLICIES TOWARD SUB-SAHARAN AFRICA. THERE IS A SENSE THROUGHOUT THE ADMINISTRATION, AND I BELIEVE HERE IN THE CONGRESS AS WELL, THAT A NEW ERA OF COOPERATION BETWEEN THE ADMINISTRATION AND CAPITOL HILL IS POSSIBLE IN THE MAKING AND IMPLEMENTATION OF OUR FOREIGN POLICY, AND IN THE PROVISION OF FOREIGN ASSISTANCE TO MEET OUR POLICY OBJECTIVES.

IN THE VERY RECENT PAST CONGRESS AND THE EXECUTIVE BRANCH HAVE WORKED TOGETHER TO PROVIDE DESPERATELY NEEDED RELIEF TO AREAS STRICKEN BY NATURAL DISASTERS AND THOSE TORN BY CIVIL WAR. WE ARE WORKING CLOSELY WITH THE CONGRESS AND SPECIFICALLY THIS COMMITTEE TO MEET OUR OBLIGATIONS IN TERMS OF SUPPORT FOR THE UNITED NATIONS TRANSITION ASSISTANCE GROUP FOR NAMIBIA. LAST YEAR THE CONGRESS AND THE ADMINISTRATION AGREED THAT MORE ECONOMIC ASSISTANCE WAS REQUIRED FOR AFRICA AND YOU PROVIDED THAT ASSISTANCE. WE LOOK FORWARD TO WORKING WITH YOU AND YOUR STAFF ON MATTERS OF MUTUAL INTEREST AND CONCERN.

FOR FY 90 THE ADMINISTRATION IS REQUESTING $820 MILLION IN ECONOMIC ASSISTANCE FOR SUB-SAHARAN AFRICA AND $85 MILLION FOR MILITARY ASSISTANCE. AS IN PREVIOUS YEARS, THE EMPHASIS ON OUR ASSISTANCE IS WHERE IT BELONGS FOR AFRICA, AND THAT IS ON THE ECONOMIC SIDE. WE ARE REQUESTING APPROXIMATELY $10 IN ECONOMIC ASSISTANCE FOR EVERY $1 OF MILITARY ASSISTANCE.

THE REQUEST FOR ASSISTANCE FOR AFRICA FOR THE COMING FISCAL YEAR REMAINS CONSISTENT WITH PREVIOUS YEARS. OUR REQUEST LAST YEAR (FY89) WAS FOR $819 MILLION; THE INCREASE THIS YEAR OVER LAST IS ENTIRELY ON THE ECONOMIC SIDE OF THE LEDGER. OVER THE PAST FIVE YEARS THE REQUEST FOR FOREIGN ASSISTANCE FOR AFRICA HAS BEEN JUST AT, OR JUST UNDER, $1 BILLION. IT HAS ALWAYS HEAVILY EMPHASIZED THE ECONOMIC NEEDS IN AFRICA.

WE DO, HOWEVER, ALSO HAVE SERIOUS, LEGITIMATE MILITARY ASSISTANCE REQUIREMENTS IN AFRICA, AND THE RECENT DEEP CUTS IN APPROPRIATIONS AND THE EARMARKING OF 94% OF THE MILITARY ASSISTANCE FUNDS HAVE LEFT LITTLE FOR AFRICAN PROGRAMS. THIS YEAR, AS IN 1988, WE WERE ABLE TO ALLOCATE JUST OVER $25 MILLION FOR MILITARY ASSISTANCE FOR OUR COUNTRIES. THIS

FUNDING TREND IS JEOPARDIZING OUR ABILITY TO MAINTAIN ANY CREDIBILITY WITH OUR AFRICAN FRIENDS. WE CONSIDER OUR FUNDING REQUEST TO BE THE MINIMUM NECESSARY FOR US SECURITY INTERESTS. THESE INCLUDE: PROMOTING REGIONAL STABILITY, FORGING KEY LIAISON CHANNELS WITH AFRICAN MILITARIES, FOSTERING THE MILITARY SENSE OF PROFESSIONALISM AS WELL AS NATION-BUILDING VALUES, AND MAINTAINING ACCESS TO AFRICAN FACILITIES.

I SHOULD POINT OUT THAT THE FY90 REQUEST CONTAINS NO FUNDING FOR ANY NAMIBIA PROGRAMS. WE ARE WELL AWARE THAT A NEWLY INDEPENDENT NAMIBIA WILL HAVE SIGNIFICANT REQUIREMENTS FOR ASSISTANCE. THE DONOR COMMUNITY IS ALREADY BEGINNING TO LOOK AT THOSE REQUIREMENTS, BUT WE ARE NOT YET IN A POSITION TO PREDICT WHAT WILL BE NEEDED AND WHAT THE US SHOULD BE PROVIDING. WE WILL BE WORKING WITH THE UNITED NATIONS, WITH THE DONOR COMMUNITY, AND WITH NAMIBIA ONCE IT IS INDEPENDENT, TO DETERMINE NAMIBIAN REQUIREMENTS. ACCORDING TO THE TIMETABLE, NAMIBIA WILL BECOME INDEPENDENT DURING FISCAL YEAR 1990. AS NAMIBIA'S ECONOMIC REQUIREMENTS BECOME CLEAR, WE WILL BEGIN TO WORK WITH THE CONGRESS TO TRY TO MEET THOSE REQUIREMENTS.

AS WE BEGIN A NEW ADMINISTRATION I THOUGHT IT WOULD BE BEST TO REVIEW WHERE WE HAVE BEEN OVER THE PAST EIGHT YEARS, AND SET A CONTEXT FOR THE NEXT FOUR. MY REVIEW WILL RELATE OUR POLICIES TO THE RESOURCES NEEDED TO MEET OUR POLICY OBJECTIVES.

CURRENT SITUATION

BY AND LARGE, US POLICY, AND POLICY OBJECTIVES, FOR AFRICA HAVE BEEN VERY CONSISTENT OVER THE LAST TEN OR SO YEARS. AS WE WORK WITH THE CONGRESS, WE HOPE THAT OUR OVERALL OBJECTIVES WILL CONTINUE TO ENJOY A HEALTHY DEGREE OF SUPPORT DURING THE BUSH YEARS. UNFORTUNATELY, THE RESOURCES APPROPRIATED OVER THE YEARS HAVE FALLEN SHORT OF ALLOWING US TO MEET OUR EARLIER STATED OBJECTIVES. FOREIGN ASSISTANCE RESOURCES, BOTH ECONOMIC AND MILITARY, PLUMMETED FROM A HIGH IN 1985 OF $1.256 BILLION TO A LOW OF $882 MILLION IN 1987 AND HAVE RISEN ONLY SLIGHTLY IN 1989 TO ABOUT $905 MILLION. THIS SWING OF $400 MILLION IN A TWO YEAR PERIOD CAME AT A TIME WHEN ECONOMIC AND MILITARY ASSISTANCE RESOURCES WERE NEEDED MOST TO ASSIST OUR AFRICAN FRIENDS AND ACCOMPLISH SOME OF OUR MOST IMPORTANT OBJECTIVES: ECONOMIC REFORM, ACCESS TO MILITARY FACILITIES, AND GAINING INFLUENCE WITH LEFT LEANING AND

NON-ALIGNED STATES. THE INABILITY TO INFUSE RESOURCES AT CRITICAL TIMES HAS KEPT US FROM ACHIEVING KEY OBJECTIVES.

CURRENT OBJECTIVES AND POLICY

OBJECTIVES WHICH WILL CONTINUE TO HAVE LEGITIMACY FOR AT LEAST THE NEAR TERM - WITH SOME FINE TUNING AS NECESSARY FOR UNFOLDING EVENTS - CAN BE STATED AS FOLLOWS:

--PROMOTE A MORE PRO-WESTERN POLITICAL AND ECONOMIC ORIENTATION IN AFRICAN COUNTRIES, STRENGTHENING THEIR IMPETUS TOWARD MARKET- ORIENTED ECONOMIC REFORM AND SELF-RELIANT DEVELOPMENT STRATEGIES;

--DENY STRATEGIC ADVANTAGE AND INFLUENCE TO THOSE COUNTRIES OR GROUPS WITH OBJECTIVES INIMICAL TO OUR OWN AND CONTINUE TO FOLLOW THROUGH ON CUBAN WITHDRAWAL FROM ANGOLA AND BUILD ON SOVIET COOPERATION IN SOUTHERN AND EASTERN AFRICA;

--CONTINUE TO WORK TOWARDS A RESOLUTION OF THE SOUTHERN AFRICA CONFLICT BY PRESSING FOR RACIAL JUSTICE AND REPRESENTATIVE GOVERNMENT IN SOUTH AFRICA, WHILE SUPPORTING A SUCCESSFUL TRANSITION TO INDEPENDENCE FOR NAMIBIA; AND WORKING FOR A SETTLEMENT OF THE ANGOLAN CIVIL WAR AND NATIONAL RECONCILIATION AS WELL AS FOR PEACEFUL SOLUTIONS TO ALL INTERNAL CONFLICTS IN AFRICA;

--RETAIN MILITARY ACCESS IN EAST AFRICA AND USG FACILITIES IN LIBERIA, AND OUR COOPERATIVE RELATIONSHIPS WITH ZAIRE AND CHAD;

--WORK TO STRENGTHEN RESPECT FOR HUMAN RIGHTS IN ALL AFRICAN COUNTRIES; DEVELOP COMPREHENSIVE PROGRAMS FOR USE OF "HUMAN RIGHTS FUND" RESOURCES;

--SUSTAIN OUR PARTNERSHIP WITH KEY AFRICAN STATES AND COOPERATE WITH THE FRENCH (AND OTHER ALLIES) IN THE COMMON EFFORT TO CONTAIN AND, WHERE OPPORTUNITIES OCCUR, ROLL BACK LIBYAN INROADS AND INFLUENCE;

--SUPPORT REFUGEE PROGRAMS AND WORK TO ALLEVIATE SUFFERING AND PREVENT DEATH FROM FAMINE, DISEASE (INCLUDING AIDS), AND NATURAL DISASTER.

OPPORTUNITIES AND PROBLEMS: RESOURCES REQUIRED

ECONOMIC ASSISTANCE

AS I MENTIONED EARLIER, THIS YEAR THE ADMINISTRATION IS SEEKING APPROXIMATELY $820 MILLION IN ECONOMIC ASSISTANCE FOR SUB-SAHARAN AFRICA. OF THAT REQUEST, WE PROPOSE $565 MILLION FOR THE DEVELOPMENT FUND FOR AFRICA, A TOTAL OF $171 MILLION IN PL 480 FOOD ASSISTANCE, AND $83.3 MILLION FOR ESF.

AN INCREASING FLOW OF U.S. ASSISTANCE WILL BE NECESSARY TO SUSTAIN THE TREND TOWARD CONTINENT-WIDE ABANDONMENT OF STATIST AND ANTI-MARKET ECONOMIC STRATEGIES, AND TO PROMOTE AFRICAN ACCOMMODATION TO AND RESPECT FOR THE EXISTING INTERNATIONAL ECONOMIC ORDER. IN ADDITION TO GOVERNMENT AND INTERNATIONAL INSTITUTION-PROVIDED ASSISTANCE, WE NEED TO ATTRACT GREATER U.S. PRIVATE SECTOR RESOURCES TO SUPPORT AFRICA ECONOMIC GROWTH. CONSOLIDATION OF THE EXISTING MOVEMENT TOWARD A REDUCTION OF STATIST ECONOMIC STRATEGIES AND ALLOWING GREATER FREEDOM TO THE PRIVATE SECTOR IS A MAJOR AMERICAN SUCCESS. THE ECONOMIC BIND IN WHICH MOST AFRICAN STATES FIND THEMSELVES, AND THE PREVALENCE OF ONE-PARTY AND MILITARY REGIMES, HAVE TENDED TO PROMOTE A SEARCH FOR RADICAL SOLUTIONS IN, FOR EXAMPLE: BURKINA FASO, GHANA AND UGANDA. SEVERE ECONOMIC PROBLEMS HAVE CREATED LOW COST OPPORTUNITIES FOR LIBYA, CUBA, NORTH KOREA, AND IN SOME CASES, THE SOVIETS. BY CONTRAST, AN AFRICAN DISAVOWAL OF STATISM HAS THE POTENTIAL, OVER TIME, TO TRANSFORM AND STABILIZE THE INTERNATIONAL POLITICO-ECONOMIC LANDSCAPE TO US ADVANTAGE. WE NEED TO DO EVERYTHING WE CAN TO PROMOTE CONTINUATION OF THIS TREND.

MARKET ECONOMICS IS NOW ON TRIAL IN AFRICA, AS GOVERNMENT AFTER GOVERNMENT MOVES AT OUR URGING TOWARD POLITICALLY RISKY STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM POLICIES. THE U.S. HAS A HIGH STAKE IN MAKING THIS APPROACH WORK. OUR GOAL MUST BE TO DEMONSTRATE CONVINCINGLY THAT IT IS THE WEST WHICH IS THE NATURAL AND EFFECTIVE PARTNER OF AFRICAN COUNTRIES SEEKING TO DEVELOP AND MODERNIZE, JUST AS IT IS THE WEST WHICH STEPS FORWARD TO MITIGATE AND OFFSET THE EFFECTS OF NATURAL DISASTERS.

--AN ECONOMIC ACTION PROGRAM

WE CANNOT AFFORD TO BACK AWAY FROM AFRICA AT A TIME WHEN WE BELIEVE IT IS WALKING TOWARD US. CRITICAL TO THE SUCCESS OF OUR EFFORTS TO ASSIST AFRICA IS AN UNDERSTANDING

THAT SUB-SAHARAN AFRICA PRESENTS UNIQUE PROBLEMS WHICH MERIT SPECIAL SOLUTIONS. AS AFRICAN GOVERNMENTS ADOPT EXTRAORDINARY MEASURES, THE GOAL OF DONORS AND CREDITORS WILL BE TO PROVIDE ENOUGH RESOURCES TO PERMIT THE NEW ECONOMIC POLICIES TO BEAR FRUIT. THE INTERNATIONAL AGENDA WILL FOCUS ON WORKING WITH OTHER DONORS TO HELP REDUCE AFRICA'S DEBT BURDEN AND INCREASING THE EFFECTIVENESS OF ASSISTANCE. OTHER MAJOR ACTIVITIES WILL INCLUDE:

--MARSHALLING PUBLIC AND PRIVATE SECTOR RESOURCES FOR GROWTH;

--ASSURING THE IMF'S AND MULTILATERAL DEVELOPMENT BANKS' CONTINUED ACTIVE AND EFFECTIVE ROLES IN SUB-SAHARAN AFRICA;

--ENHANCING DONOR COORDINATION;

--EXPLORING WAYS TO IMPROVE THE QUALITY OF OUR BILATERAL ACTIVITIES;

--SUSTAINING PROGRESS ON THE PART OF THE MORE THAN TWO DOZEN SUB-SAHARAN AFRICAN GOVERNMENTS WHICH HAVE COURAGEOUSLY ADOPTED FUNDAMENTAL ECONOMIC REFORM AND ADJUSTMENT PROGRAMS.

THE INTERNATIONAL ATMOSPHERE IS UNUSUALLY RECEPTIVE TO INNOVATIVE APPROACHES TO SUB-SAHARAN AFRICAN ECONOMIC PROBLEMS. THE VENICE SUMMIT IN 1987 ENDORSED THE CONCEPT OF A MORE GENEROUS PARIS CLUB TREATMENT OF THE POOREST DEBTORS AND AN EXPANDED IMF STRUCTURAL ADJUSTMENT FACILITY. THE IMF AND WORLD BANK ARE SPEARHEADING EFFORTS TO INCREASE CONCESSIONAL FLOWS TO AFRICAN REFORMERS, TO RAISE LEVELS OF FAST-DISBURSING ASSISTANCE, AND TO DEVELOP A STRATEGY TO ALLEVIATE SUB-SAHARAN AFRICA'S INDEBTEDNESS.

WE FACE THE DIPLOMATIC CHALLENGE OF ENSURING THAT AFRICAN HOPES ARE NOT RAISED TO UNREALISTIC HEIGHTS IN THESE TIGHT BUDGET TIMES. BUT WE MUST ALSO CONTINUE TO ASSESS WAYS TO MUSTER RESOURCES COMMENSURATE WITH AFRICAN REFORMERS' NEEDS. IN OUR CONTACTS WITH SUB-SAHARAN AFRICAN LEADERS, WE MUST CONSISTENTLY STRESS THE IMPORTANCE OF SOUND ECONOMIC PERFORMANCE, WHILE UNDERSTANDING THE POLITICAL AND SOCIAL LIMITS TO AND CONSEQUENCES OF CHANGE.

U.S. AID IS ESSENTIAL TO ENABLE AFRICAN GOVERNMENTS TO MAKE AND SUSTAIN THE TOUGH POLICY MEASURES NECESSARY FOR POLICY REFORM AND TO CREATE CONDITIONS WHICH WILL EVENTUALLY ATTRACT THE FOREIGN AND DOMESTIC PRIVATE INVESTMENT NECESSARY FOR A SUSTAINED ECONOMIC GROWTH. SHOULD WE BE UNABLE TO SUSTAIN NECESSARY ASSISTANCE LEVELS, WE RISK THE COLLAPSE OR DELAY OF ECONOMIC REFORMS, INJURY TO FRIENDLY GOVERNMENTS, AND ACRIMONIOUS CHARGES OF A BREACH OF FAITH.

--THE DEVELOPMENT FUND FOR AFRICA (DFA) AND ECONOMIC SUPPORT FUNDS (ESF)

IN 1988 THE CONGRESS CREATED THE DEVELOPMENT FUND FOR AFRICA VIA SPECIFIC LINE ITEMS IN THE FY88 APPROPRIATIONS LEGISLATION. IN THE PROCESS OF CREATING THE DFA, MOST ESF PROGRAMS WERE FOLDED INTO THE DEVELOPMENT ACCOUNT, AND THE ESF ACCOUNT WAS DECREASED BY MORE THAN ONE-THIRD FROM $165 MILLION IN FY87 TO $90 MILLION IN FY88.

MILITARY ASSISTANCE

WE VIEW SELECTIVE ARMS TRANSFERS AS A VALID INSTRUMENT AMONG THE VARIOUS INSTRUMENTS OR LEVERS OF INFLUENCE THAT WE POSSESS. WE HAVE ACKNOWLEDGED THAT AFRICAN GOVERNMENTS AND MILITARIES HAVE LEGITIMATE MILITARY REQUIREMENTS. BILATERAL MILITARY ASSISTANCE PROGRAMS HAVE A VARIETY OF JUSTIFICATIONS: TO GAIN ACCESS TO MILITARY AND CIVILIAN FACILITIES FOR OUR OWN MILITARY FORCES; TO GAIN ACCESS TO SENIOR AFRICAN OFFICIALS, MANY OF WHOM ARE MILITARY; AND TO RESPOND TO THE LEGITIMATE REQUESTS BY A NUMBER OF GOVERNMENTS FOR TECHNICAL AND EQUIPMENT ASSISTANCE TO ORGANIZE AND PROFESSIONALIZE THEIR MILITARIES.

THE FY90 MILITARY ASSISTANCE REQUEST CONTINUES TO BE FOCUSSED ON COUNTRIES WHERE WE HAVE IMPORTANT MILITARY INTERESTS: THE HORN COUNTRIES, KENYA, CHAD, AND ZAIRE. WE SEEK TO EXPAND OUR CIVIC ACTION AND COASTAL SECURITY PROGRAMS FROM $2 MILLION THIS YEAR TO $6 MILLION IN FY90. WE BELIEVE THAT THROUGH THESE PROGRAMS WE CAN HELP TURN THE MILITARY TOWARD NATION BUILDING ACTIVITIES.

US MILITARY ASSISTANCE WILL CONTINUE TO GO PRIMARILY FOR SPARES AND SUPPORT OF PREVIOUSLY FURNISHED EQUIPMENT AND WILL EMPHASIZE BASIC TRAINING AND INFRASTRUCTURE REQUIREMENTS: TRANSPORTATION, ENGINEERING, COMMUNICATIONS, AND PERSONAL

EQUIPMENT SUCH AS BOOTS AND UNIFORMS. OF THE $85 MILLION REQUESTED FOR FY90, I WOULD STRESS THAT $73 MILLION ADDRESSES ONLY NECESSARY SUPPORT, NOT ADDITIONAL EQUIPMENT FOR ATTRITION OR NEW PROGRAMS THAT ARE BADLY NEEDED IN SOME COUNTRIES. ANOTHER $12 MILLION WOULD FUND TRAINING UNDER THE IMET PROGRAM.

OVERVIEW

AS I MENTIONED EARLIER, MILITARY ASSISTANCE TO AFRICA (EXCEPT FOR IMET FUNDING) HAS BEEN REDUCED TO A FRACTION OF THE 1985 LEVEL OF $158 MILLION. FY89 MILITARY ASSISTANCE FOR ALL OF SUB-SAHARN AFRICA HAS FALLEN TO JUST $25 MILLION -- $25 MILLION TO SUPPORT 18 INDIVIDUAL PROGRAMS IN AFRICA.

IN RELATIVE TERMS WE HAVE PUT VERY LITTLE MILITARY ASSISTANCE INTO AFRICA. AS STATED ABOVE, THE VAST MAJORITY OF US ASSISTANCE HAS GONE FOR BASIC DEVELOPMENT AND MILITARY INFRASTRUCTURE REQUIREMENTS. WE HAVE, HOWEVER, BEEN ABLE TO MAXIMIZE OUR EFFECTIVENESS THROUGH CAREFUL USE OF SCARCE RESOURCES BY ESTABLISHING MEANINGFUL, SMALL PROGRAMS IN COUNTRIES THAT REQUIRE ONLY LIMITED FUNDING TO MEET THEIR NEEDS. TWO OF THESE PROGRAMS ARE THE CIVIC ACTION AND COASTAL SECURITY PROGRAMS MENTIONED ABOVE. THESE TWO REGIONAL PROGRAMS HAVE ENJOYED THE INTEREST OF THE CONGRESS AND BEEN VERY SUCCESSFUL WITH THE AFRICANS.

THE CIVIC ACTION PROGRAM IS DESIGNED TO DEMONSTRATE THAT THERE ARE EXCELLENT PEACETIME USES OF THE (AFRICAN) MILITARY. TOO OFTEN, PARTICULARLY IN AFRICA, THE MILITARY IS SEEN BY THE CIVILIAN POPULATION AS A LIABILITY AND DRAIN ON THE SOCIETY, WHEN IN MANY CASES, THE MILITARY IS A COMPETENT, TRAINED WORK FORCE THAT CAN BE AN ASSET TO THE NATION. CIVIC ACTION PROJECTS ARE PRIMARILY ENGINEERING PROJECTS, SUCH AS ROAD AND AIRFIELD IMPROVEMENT, CONSTRUCTION OF HEALTH CLINICS AND SCHOOLS FOR THE MILITARY AND THEIR DEPENDENTS, AND WATER PROJECTS. THE COASTAL SECURITY PROGRAM IS EVEN MORE SUCCESSFUL. IT PROVIDES ASSISTANCE TO WEST AFRICAN NAVIES TO ALLOW THEM TO BETTER PATROL THEIR COASTS AND EXCLUSIVE ECONOMIC ZONES (EEZS). ALTHOUGH ONLY FOUR YEARS OLD, THE PROGRAM HAS MADE AN ENORMOUS DIFFERENCE IN THE ABILITIES OF THESE SMALL NAVIES TO ENFORCE FISHING AGREEMENTS AND APPREHEND POACHERS AND SMUGGLERS. THE COASTAL SECURITY PROGRAM HAS GAINED US DIRECT ACCESS TO TOP LEADERSHIP IN HALF A DOZEN COUNTRIES IN WEST AFRICA. DUE TO THE DECLINE IN OVERALL FUNDING LEVELS, WE WERE ABLE TO FUND THESE TWO VALUABLE PROGRAMS AT ONLY $5 MILLION

TOTAL IN FISCAL 1988 AND 1989 COMPARED TO AN INITIAL LEVEL OF $5 MILLION IN 1985 - A LEVEL WE HAD HOPED TO MAINTAIN TO MEET OUR OBJECTIVES. THIS YEAR'S REQUEST IS FOR $6 MILLION.

THE DECLINE IN MILITARY ASSISTANCE FOR AFRICAN COUNTRIES HAS PUT US RELIABILITY AND CREDIBILITY IN JEOPARDY. ONE OF THE KEY TENETS OF US MILITARY ASSISTANCE IS THAT WE SUPPORT WHAT WE PROVIDE. IN AFRICA WE HAVE NOT DONE THAT. THIS YEAR WE ARE UNABLE TO PROVIDE SUFFICIENT FUNDING EVEN TO SUPPORT NIGER'S TWO C-130 AIRCRAFT. BY OUR CALCULATIONS, APPROXIMATELY $73 MILLION (THE FY90 REQUEST) IS REQUIRED ANNUALLY TO PROVIDE SUPPORT, SPARES, AND MAINTENANCE FOR THE EQUIPMENT WE HAVE PROVIDED.

THE REDUCTION IN MILITARY ASSISTANCE FOR AFRICA, WHICH HAS MEANT A CUT-OFF OF ASSISTANCE FOR FY88 AND FY89 IN MANY COUNTRIES, HAS PUT US ACCESS TO FACILITIES AND LEADERSHIP IN GRAVE DANGER THIS YEAR. OUR NEGOTIATED ACCESS AGREEMENTS WITH KENYA AND SOMALIA ARE SUBJECT TO RENEGOTIATION IN 1990. THESE AGREEMENTS, ORIGINATED UNDER THE CARTER ADMINISTRATION AND SUSTAINED BY SUCCEEDING ADMINISTRATIONS, ARE IN SUPPORT OF U.S. STRATEGIC INTERESTS IN THE MIDDLE EAST AND PERSIAN GULF, SOUTHWEST ASIA, AND INDIAN OCEAN. CONTINUED ACCESS MAY NOT BE POSSIBLE IF WE ARE UNABLE TO PROVIDE HIGHER AMOUNTS OF MILITARY ASSISTANCE - ASSISTANCE WHICH WE HAVE AGREED IS A LEGITIMATE REQUIREMENT.

THE COMBINATION OF LOWER FUNDING LEVELS AND HIGH EARMARKS IN FY89 LEFT ONLY $25 MILLION IN MILITARY ASSISTANCE FOR ALL OF AFRICA. BECAUSE CONGRESS EARMARKED $15 MILLION FOR KENYA, THIS LEFT US WITH ONLY $10 MILLION IN GRANT FUNDS TO SPREAD ACROSS THE CONTINENT FOR ALL OF OUR OTHER KEY PROGRAMS: SOMALIA, ZAIRE, CHAD, CIVIC ACTION AND COASTAL SECURITY TO NAME A FEW. THIS IS AN EXCELLENT EXAMPLE OF WHY THE ADMINISTRATION OPPOSES EARMARKS EVEN WHEN, AS IN THE CASE OF KENYA, AN IMPORTANT FRIEND BENEFITS.

ONE OF OUR MOST DIFFICULT ACCOUNTS IN THE HORN IS SOMALIA. CONCERNS ABOUT HUMAN RIGHTS AND THE INSURGENCY IN THE NORTH LED TO CONGRESSIONAL HOLDS ON ESF (BALANCE-OF-PAYMENTS) SUPPORT FOR THE GOVERNMENT. WE FULLY SHARE THESE CONCERNS. NATIONAL RECONCILIATION AND HUMAN RIGHTS IMPROVEMENTS ARE IN THE US INTEREST AS WELL AS SOMALIA'S. THE PROGRESS THAT HAS BEEN ACHIEVED SINCE LAST SUMMER DEMONSTRATES THAT OUR POLICY ON THIS ISSUE IS TAKING HOLD. SOMALIA REMAINS IMPORTANT TO US, BOTH IN POLITICAL TERMS AND AS AS A LOCATION FOR US FORCES TO EXERCISE, FLY TRAINING MISSIONS, STAGE SURVEILLANCE MISSIONS IN THE GULF OF ADEN AND INDIAN OCEAN, AND MOST IMPORTANTLY, AS IT HAS THE ONLY FACILITIES AVAILABLE TO OUR SHIPS AND PLANES NEAR THE BAB EL MANDAB STRAITS, THROUGH WHICH AN INCREASING AMOUNT OF OIL FLOWS. IN ASSISTING THIS FRIENDLY GOVERNMENT TO RESOLVE ITS INTERNAL PROBLEMS, WE SHOULD REMEMBER THAT IT IS IN OUR INTEREST TO DO SO NOT ONLY FOR BI-LATERAL AND REGIONAL OBJECTIVES, BUT TO MAINTAIN OUR NEGOTIATED ACCESS TO SOMALI FACILITIES.

WE UNDERSTAND FULLY THE FOREIGN ASSISTANCE CONSTRAINTS DUE TO THE SERIOUS US DOMESTIC BUDGET SITUATION. WE ALSO KNOW AFRICA AND AFRICAN COUNTRIES HAVE THE LOWEST WORLD-WIDE PRIORITY FOR MILITARY ASSISTANCE FUNDING. BUT THE US DOES HAVE A MILITARY INTEREST IN AFRICA, AND WE HAVE WELL-DEFINED POLICY OBJECTIVES THAT NECESSITATE A REASONABLE FUNDING LEVEL FOR OUR MILITARY ASSISTANCE PROGRAMS.

FOREIGN ASSISTANCE STRATEGY FOR AFRICA

AFRICA'S MOST PRESSING NEEDS ARE ECONOMIC AND HUMANITARIAN, BUT MANY COUNTRIES WHO HAVE DIRE ECONOMIC NEEDS ALSO HAVE SERIOUS SECURITY THREATS DUE TO AGGRESSION OR INTERNAL INSTABILITY REQUIRING MILITARY ASSISTANCE TO DEAL WITHTHE SITUATION. WE CANNOT ADDRESS ONE NEED WITHOUT ADDRESSING THE OTHER. WE MUST RECOGNIZE THAT IN MANY AFRICAN COUNTRIES THE MILITARY IS OFTEN THE MOST POWERFUL POLITICAL AND SOCIAL INSTITUTION AND CLEARLY BENEFITS FROM MATERIAL ASSISTANCE PROVIDED WITH PROFESSIONAL GUIDANCE.

ALTHOUGH REAL GROWTH IN THE FOREIGN ASSISTANCE ACCOUNT IS UNLIKELY IN THE NEAR TERM, WE STILL SEEK THE WHEREWITHAL TO RESPOND TO BOTH URGENT REQUIREMENTS AND WINDOWS OF OPPORTUNITY, PARTICULARLY ON THE ECONOMIC FRONT. BOTH ECONOMIC AND MILITARY RESOURCES NEED BE INCREASED ONLY MODESTLY TO MEET OUR CURRENT POLICY OBJECTIVES IF THOSE RESOURCES CAN BE FLEXIBLY AND EFFECTIVELY APPLIED.

THE CONSEQUENCES OF FURTHER REDUCTIONS IN OUR ASSISTANCE IN TERMS OF INSTABILITY ON THE ECONOMIC AND SECURITY FRONTS ARE NOT IN OUR INTEREST. THE COST TO THE US IN DOLLAR TERMS TO PREVENT THIS IS MINIMAL. WE BELIEVE THAT DOLLAR FOR DOLLAR WE GET AN EXCELLENT RETURN ON INVESTMENT OF FOREIGN

ASSISTANCE FUNDS IN AFRICA. WE HAVE A TREMENDOUS OPPORTUNITY AT RELATIVELY LOW COST AND WE SHOULD NOT PASS IT UP.

IN CONCLUSION MR. CHAIRMAN. I WANT TO RE-EMPHASIZE OUR DESIRE AND WILLINGNESS TO WORK WITH THE CONGRESS TO MAKE OUR ASSISTANCE AS EFFECTIVE AS POSSIBLE. I BELIEVE THAT THE RECENT EXAMPLES OF THE CREATION OF THE DEVELOPMENT FUND FOR AFRICA AND THE INSTITUTING OF THE CIVIC ACTION AND COASTAL SECURITY PROGRAMS UNDER THE MILITARY ASSISTANCE ACCOUNT ARE EVIDENCE THAT WE CAN WORK TOGETHER TO MAXIMIZE THE EFFECTIVENESS OF OUR RESOURCES TO ACHIEVE US NATIONAL OBJECTIVES IN AFRICA. I LOOK FORWARD TO A CONTINUING PARTNERSHIP.

THANK YOU MR. CHAIRMAN.

POLICY TOWARD AFRICA

Senator **LEAHY**. You have heard some of the things I have talked about here. Let me ask you this question and feel free to say anything you want. Are we in an impossible situation? When you look at a map of sub-Saharan Africa, there are many different countries so it is hard to generalize. Some are willing to put up with anything to have military access. They will ignore human rights, will ignore anything else to make sure that we get whatever we perceive is our military necessities there. I'm not making a moral statement or a political statement. It's just a factual one.

Is this something that we should just look at and say, oh, the heck with it? The United States has enough problems worldwide. We have enough problems at home. Should we just ignore it? Because we are getting very close to that point now with the amount of money we are putting into Africa. Should we just say this is insolvable? None of us will live long enough to see it change? Do we just walk away? Do we keep a nominal pittance in there so that periodically when the press rediscovers famine or starvation and lets the United States realize that it is there—I mean, we have this attitude that it goes away if it is not in the news at night, and then it comes back when the networks springs for a little extra budget to send somebody over in that part of the world for a few days. Do we keep it up in the air so we can say we are doing something?

I don't mean these as sarcastic questions. I am very really frustrated.

Ms. **ROSENBERG**. I think those are legitimate questions that you and the taxpayers you represent should be asking. You will probably guess that my answer is not going to be, yes, we should walk away.

I have been involved myself in African affairs for close to 15 years so I guess I'm not a cockeyed optimist. I think I'm a realist, but I do think that Africa is worth it, and I think Africa has a place in this world.

DIVERSE NATIONS

And I think that unlike some of the other regions which we may through either our heritage or geographical proximity understand a lot better, Africa is still in the future. A lot of these African countries are very young. We are only talking about at the most 25 years or so of independence.

A lot of the African countries that you look at on the map probably don't make a lot of sense as countries either, frankly. At the time of independence, the colonial boundaries remained in force. I think the Africans decided the alternative would be unending warfare, tribal and turf warfare. And the idea was just to assume this is what you have, so that some countries are more advantaged than others in terms of natural resources, in terms of the population and the degree to which colonial powers may have developed the indigenous skills—or whether they were just interested in extractive industries; where certain natural resources and products were shipped back to the home country.

DEVELOPMENTS SINCE INDEPENDENCE

But the Africans now have the responsibility of governing themselves. And in the short span of time between independence and now, Senator Leahy, I think there has been a real sea change in a lot of countries that gives us cause for hope and for optimism, a reason for sticking with it.

At the time of independence, the Founding Fathers were after a more equitable deal for their people and took their countries in a lot of directions that have proven to be counterproductive, at best. Agriculture was allowed to go down the tubes. You have seen the statistics, I don't have to tell them to you. But they have faced those problems.

ECONOMIC REFORM

And the significance of economic reform—we can debate about whether economic reform is good or bad, or whether economic reform has its short-term side effects that you must deal with. I guess I am in the latter category. I think economic reform is the only way to go, but you must deal with the adjustment problems that it creates along the way while keeping on in the same direction.

Those are very courageous steps that they have taken. Governments have decided they have got to do something to stem the tide. The tragic direction that things were going, and their inability to meet the needs of their people was becoming so stark that they have decided by themselves—with the encouragement of the outside world, but by themselves—to pursue a different course. And in some cases we have already some success stories in a very short period of time.

AIDS EPIDEMIC

On the question of AIDS, I am not an expert. But in the short time that I have been following the issue, I have seen the Western World basically looking to Africa as sort of the genesis of that problem, African leaders becoming very defensive with this kind of public attention on them, and almost a denial syndrome.

That has changed, and now you can talk very openly in most African countries about the problem. Most of the African leaders are asking for help. You go into Uganda, for instance, and you hear radio programs all the time about loving carefully. Some of it has a tinge of humor to it, but there are serious messages and serious programs that these countries are committing to.

TRANSFERS OF POWER

You also have a situation in several countries where you have a second generation of leaders coming in. And as often as not, they have been peaceful transfers of power, which is something remarkable. We would like to see more of them, but you have several cases where leaders actually resigned and turned the government over in a peaceful manner.

You have a more technocratic leadership emerging in some of these countries where they understand what needs to be done, and they are more outward looking. They are not so much inclined to inflict problems on their populace or blame the outside world, but rather to roll up their sleeves and pull up their bootstraps and get to work. So I think that more than ever African countries merit our help.

Senator LEAHY. You also have some where the leaders will bleed the country dry and leave monuments to themselves after they are buried and gone.

Ms. ROSENBERG. With close to 50 countries, you have all kinds of histories. And obviously, when we do have relationships with some of those leaders, we are trying to work on those problems. We probably have comparable problem children, if I can put it that way, in other regions as well. But, sure, the stories are legendary. And we are hoping that those kinds of things will become more a story of the past than of the present or certainly of the future.

So, there is my sermonette on Africa.

SUDAN

Senator LEAHY. There are 50 countries. Obviously, we are not going to go in there and tell every country what to do or help them do it. But have we reached a point where really what we do is more symbolic than real? How do you respond to the question? Are we more symbolic than anything else?

And what do we do on massive problems like the Sudan? We are not dealing just with a governmental infrastructure. We are asking ourselves a question. Do we stay out because we are afraid that we might push one of countries the wrong way or whatever? In making geopolitical decisions for the United States—the country with one of the greatest humanitarian records of any nation in the world—do we find ourselves suddenly just turning our back on nations that have hundreds of thousands of people dying?

Ms. ROSENBERG. Another good question.

Senator LEAHY. Can we move in quickly? Do we have the ability to do it, the money to do it, and do we have the political will to do it?

Ms. **Rosenberg.** I think in the case of Sudan, there has been an interesting evolution both in terms of what has happened internally and the approach of the United States and other governments over time, just certainly in the time I have been on the job since last summer.

A lot of the hunger problem that we read about in the Sudan is not really drought-related. It is related to the civil war.

Senator **Leahy.** I understand.

Ms. **Rosenberg.** The food is there. This is something that Julia Taft will say to anybody and everybody who will listen. We have the supplies. It's a question of distribution. Why are there distribution problems? Because you have this terrible upheaval in the country. So, in that case you are not necessarily talking about a magnitude of new money needed to solve the problem.

Senator **Leahy.** So it is the political willpower, the geopolitical decisions. Is there any coordination in that?

Ms. **Rosenberg.** I would argue that there has been more than meets the eye, and I think it is getting better all the time because the fact is, for example, on military assistance, there has virtually been no significant military assistance that we have provided or even tried to provide since about 1985 I think.

Most of our aid is humanitarian in nature. Our economic assistance has been tied to economic reform, to certain basic steps that we think are necessary to help that leadership to help itself to help its people in the future. We have been willing to hold back the disbursement of some of our own resources if we felt the government wasn't doing what they could do. But if you don't have the relationship to begin with, how much are you going to be able to influence their actions?

A STARVING CHILD KNOWS NO POLITICS

Senator **Leahy.** I remember when people testified here on Ethiopia a number of years ago. We had to hold back because it was a marxist government. We are not going to feed those 6 month old marxists, those starving marxists, because of the threat the 6 month old, and 1 year old and 2 year old, and 3 year olds pose to us.

Ms. **Rosenberg.** I think there were probably those who held that view, but I am glad to say that the administration's ultimate position that a hungry child knows no politics is the one that prevailed. And I think that is the right one.

Senator **Leahy.** After enough of them died, that view finally prevailed. But, boy, it took an awful lot of pressure from the Congress to get that to prevail. And what I am concerned about is at what point does politics drive our humanitarian instincts, and at what point is it an absolute necessity?

Now, obviously if you have food in an area where there are warring factions and the food is not going anywhere, politics does affect humanitarian instincts. But then, of course, you can go further on that and say to what extent have we used our leverage with humanitarian goals, which may get one result, or do we use our leverage from a military or a geopolitical view, which may give an entirely different result.

Now, in Ethiopia our instincts or our policy was certainly not driven from a humanitarian point initially. That is water over the dam now in a callous way, but the water over the dam also brought hundreds of thousands of lives with it. But the humanitarian instincts were certainly not at the fore initially. And it took a lot of people, Republicans and Democrats alike, in this Congress to raise holy hell on that.

But you say a starving child knows no politics. I absolutely agree, but the administration has cut UNICEF in half this year. I mean, a starving child may not know any politics, but certainly somebody at the White House and OMB does because they cut the money.

Slogans are great. I love them. We all use them, but the reality is the money is cut.

Ms. ROSENBERG. I am not in the best position to talk about the UNICEF issue I'm afraid.

Let me mention something more about Sudan, though.

Senator LEAHY. But it is all interrelated. The fact that we have written off one-half a continent—and I don't know which way our policy is going to go. I am trying to get some idea of where the policy is going to be this year or next year or the next. Because if the plan is just to get the heck out of it, then that should probably be the debate on the floor.

Ms. ROSENBERG. In the case of Sudan, I think that we have an impact there that is probably—well, that definitely is of a much greater magnitude than any amount of assistance that we are providing would indicate. There is no question that the Sudanese know that our top priorities are relief to those who are hungry and peace. And we have been quite firm both privately and publicly in stating those priorities and in trying to dissuade those within the Sudanese Government who may be looking for scapegoats outside their borders, who want to be distracted by finger-pointing or any one of a number of other things. These are our priorities.

And I think that you could talk to the leadership of the Sudanese Government, starting at the top, and you may hear grumbles more than anything else as far as what they hear from the United States.

As the public stance of the United States Government is concerned, you are probably familiar with Secretary Baker's statement on Sudan early on in his tenure. President Bush has also made a strong statement as well. We would expect that level of concern to continue.

The peace front, which we have been working—not terribly successfully, quite frankly, for a long time—we see some real movement now, and we give credit in part to the Sudanese military. Which brings up another point about the role of militaries in Africa. I guess I would say it depends. Militaries are not democratic institutions per se and are capable of the denial of human rights. On the other hand, in some cases they are the most prowestern, democratically inclined entities that you might have in a particular country.

AID TO SUDAN

Senator **Leahy**. I would like Eric to just go over some numbers on Sudan. Why don't you just read those in the record, Eric?

Mr. **Newsom**. For Sudan, in fiscal year 1989, we provided $10 million in DA; $26,350,000 in ESF; $40 million in title I, Public Law 480; $715,000 in title II of Public Law 480; $900,000 in IMET and no FMS.

The request this year for Sudan is $12 million in DA, development assistance; $10 million in ESF; $20 million in Public Law 480, title I—that is one-half of what it was last year—$3,429,000 in title II Public Law 480; $1,050,000 in IMET—that's a $150,000 increase—and $5 million in FMS.

Senator **Leahy**. I applaud the strong statements of the Secretary of State and the President, but somehow whoever wrote the budget apparently didn't hear their statements.

Ms. **Rosenberg**. Walter can chime in on this as well. On the development account, for example, given the link that the development fund has with economic performance in a particular African country, the feeling was that only a modest amount was probably a realistic one to ask for at this time until certain fundamental steps could be taken, and that we are much better off in gearing our assistance through ESF and Public Law 480 and so on to the humanitarian types of activities.

Do you want to comment further on that?

Mr. **Bollinger**. There are also some other figures that are very important here. Sudan has fallen under Brooke sanctions. It is in arrears in payments on its foreign assistance debt at this particular time. In fact, Sudan owes $10 million. So, it has to pay $10 million in order to get $10 million. That situation is one in which there is not a strong incentive for the Sudanese from a financial point of view to pursue their debt obligation. On the Public Law 480 side, they are $15 million in arrears.

So, at this particular point in time, we have no nonemergency assistance going to Sudan because of these strong arrearage problems, and until they are reconciled, there will be no new assistance. So, in terms of the influence we derive from our economic assistance to Sudan at this particular point, we are running on the exhaust from previous years' programs. This year we haven't been able to do a thing.

Now, there is another dimension that is important to understand, and that is in addition to the war and the $1 million a day that that is costing the Government of Sudan, the economy is in a state of—to say, chaos would probably be too strong a term, but it is in shambles.

Senator **Leahy**. Tain't stable.

Mr. **Bollinger**. Tain't stable, yes, sir.

We, in accordance with our principle of trying to shift our resources to reforming countries, don't see Sudan as a strong candidate for development assistance resources. Nevertheless, Sudan is a very large and very poor country. And we have put together a program, if it goes forward, if these Brooke issues are resolved, which will focus on family planning, natural resources management, and child survival programs that will impact on the poor strata of the

Sudanese. But as I have just underscored, there is nothing going forward at this time because these large debt issues remain unresolved.

NO EASY ANSWERS

Senator **Leahy**. I hope you understand when I ask these questions, I am not suggesting there is some quick and easy answer. There is just an enormous problem. The most depressing reading I did over the weekend was just going through the material that Mr. Newsom and the others have prepared for me for this hearing. I kept turning the page saying, well, there has to be some little bright spot out there somewhere.

We look at what we have in these places. We have Somalia, for example. We have a law on our books about our security assistance to any country involved in gross violation of human rights. And that certainly is a country that falls into that category. But the administration is asking for a large increase in security assistance. Now, that may be a geopolitical necessity, but it is just another example of how you fit things into easy boxes.

ANGOLA

We have Angola which I find very frustrating. I am sure you do too—Angola and Namibia.

I went up to New York. When was that peace agreement signed? It was in December I think it was.

Mr. **Kern**. December 22.

Ms. **Rosenberg**. The 22.

Senator **Leahy**. Yes; in fact, I actually came down here because I had been in Vermont for Christmas. And Secretary Shultz called me and asked me if I would come down to the United Nations for the signing. And there was a great deal of enthusiasm. And I hoped that this was going to work as we all did. I was there to demonstrate some of the bipartisan support.

Now we have the problems there. The United Nations, I think, had 1,000 members of their 4,500 troops in there.

Ms. **Rosenberg**. Yes; I think it is back on track.

Senator **Leahy**. I recall being a little bit concerned after hearing the suggestions made by the U.N. commander about how he was going to monitor. He said they certainly are going to do what say they were going to do. And I thought maybe that was a little bit naive. I'm not a military expert by any chance, but I have always had sort of a Vermonter's easygoing trust. We tend to like a little bit of proof just to back it up in case we make a mistake based on our own instincts.

What do we do there to make the Angolans become more prowest? The Government of Angola has been closely allied with the Soviet Union since independence, but 90 percent of its foreign exchange comes from United States companies. That's an interesting thing. We bankroll their ability to be pro-Soviet. Is this a case of the free enterprise system at work or what?

Ms. **Rosenberg**. You mean the trading relationship?

Senator **Leahy**. The question, Don Nickles, I was just asking was on Angola. They have been pro-Soviet, but 90 percent of their hard currency comes from U.S. companies, and I wondered if this was a sort of turning over of foreign policy to the free enterprise system.

Go ahead.

Ms. **Rosenberg**. Well, I think we are in favor of free enterprise. And I remember at the time——

Senator **Leahy**. Even if it appears to be pro-Soviet at our expense, but go ahead.

Ms. **Rosenberg**. Well, we think that there are a lot of reasons that it would be in the interest of Angola to change its direction.

There was a question at one time whether this trading relationship would have an influence on the Cuban presence, for example, because it involves hard currency and pays for the troops. And we had quite a lengthy study with the CIA in the lead. The basic conclusion was that the Cubans were there out of a kind of commitment that in the end didn't have anything to do with the hard currency getting paid. They saw their role as a commitment to a cause, and you have seen how they have comported themselves during the southwestern African negotiations.

Angola itself, the Angolan Government, is making a lot of noises about wanting to join the IMF and about joining the World Bank and taking up western style, market-oriented policies, opening up its system and so on. So far we see it as mostly talk. Some of our western European friends would like us to be a little more sympathetic. We are looking for more actions.

As in the case of some of the other countries we have been talking about, if you can get a situation of real peace in Angola, you have the potential for all kinds of things. You have the potential for putting a lot of these seemingly contradictory situations behind us to the betterment of the people of the country and to the region as a whole.

Could I just get back to a couple of the countries that you raised earlier?

UNTAG PEACE PROCESS

Senator **Leahy**. Yes; and add any ideas on how we verify the Cuban withdrawal from Angola. What are the procedures underway that make that verification possible? Go ahead and make your other comments, but also comment on that.

Ms. **Rosenberg**. On the issue of southwestern Africa, I am happy to say things seem to be back on track. By and large, although that was quite an egg for Crocker and others to unscramble, it is because the signatories to the agreement did not want it to fall apart. That is what came through loud and clear.

SWAPO for whatever motivation—and I suppose we have our own suspicions and others will have theirs—made a big mistake in coming over the border with their arms. The result is that the leadership from SWAPO has now said to their troops you have to go back over the border. You have got to reverse yourself.

Senator **Nickles**. Have they?

Ms. **Rosenberg**. They are in the process of that now, we believe. This is still going on. This process is just a few days old.

Senator **Leahy**. Have you verified this?

Ms. **Rosenberg.** As far as SWAPO going back over the border is concerned, Angola and the United Nations jointly have the responsibility for verifying this at some point. We want to give time for the process to work.

It was complicated a bit in the first couple of days because although there had been an agreement for the SWAPO forces to report to certain sites in northern Namibia and then be escorted over the border into Angola and then above the 16th parallel, at the same time there were radio broadcasts from some of the South African leaders saying that we are going to interrogate every one of those SWAPO people who show up at these bases. That is not going to happen, and it has now been made clear by the South African leadership. But that probably was a disincentive at the time to some of the SWAPO people to show up at these various locations.

So, what we are finding, what we think is happening, is that a lot of them will be going over under their own steam. But there will be verification which will have to be satisfactory to all the parties concerned in the not too distant future, I think in 1 week or so, as a matter of fact.

And then there is another one of these joint commission meetings coming up. The joint commission is a dispute settlement mechanism. The formal members are the parties to the agreement, Angola, South Africa, and Cuba. The United States and the Soviets are observers, but they have been participating at the invitation of the signatories. And this is one of the many fora for these kinds of issues to be discussed and settled.

Clearly, it is very difficult for one party to be able to get away with something if the other parties are there; each party is answerable not only to that group, but in essence to the international community. We have the windows of the world looking at this situation.

So, I think we can say that at this point things are back on track, and it only points up the need to get this UNTAG process in place. There were some problems in New York at the United Nations, as I understand it, which slowed down the kickoff of the UNTAG implementation plan. So, it has been slow.

We think this is a real justification for trying to get this final bit of funding that we have asked for. It is pending in the House now, as I understand. I think your counterpart subcommittee has acted on it, and it is now in full committee. So, at this point I would only urge speedy consideration.

SWAPO

Senator **Nickles.** Mr. Chairman, could I ask a question on that same line? We were talking about SWAPO. You mentioned that it is thought or hoped that they might return on their own. That leaves me a little uneasy. It is not that assured that they will be returning, and it is my understanding that if they don't return, that the agreement will be breached in such a way that it will scuttle the entire agreement.

Ms. **Rosenberg.** Well, I think that all the parties to this agreement, the Angolans and the Cubans and the South Africans, are all interested in seeing that this is completed in a way that is satisfactory to all of them. And there will be this verification, as I say.

Senator **Nickles**. Does Angola have that much control over SWAPO? If they say we signed an agreement we are going to be out, they can get them totally removed?

Ms. **Rosenberg**. The Angolans have the primary responsibility for seeing that SWAPO behaves itself. But you have a U.N. role there as well at this point.

Senator **Nickles**. Not yet, do they?

Ms. **Rosenberg**. Well, there are United Nations monitors already beginning to be in place in northern Namibia. And there is also going to be verification in Angola itself. It's not going to be just a matter of saying, yes, well, we don't see any SWAPO around in northern Namibia.

Senator **Nickles**. That's what I was wondering and hoping, that there was going to be something more concrete than just saying, well, we are leaving it to the troops to find their way back.

Ms. **Rosenberg**. Absolutely, because you have to satisfy all the parties to the agreement, otherwise the thing is going to collapse.

I think that we want to give some time for this process because there have been these confusing signals, and things got kind of crazy. But we do think things are back on track, and this is the ultimate goal. And the parties to the agreement will have to be satisfied. We think that is entirely possible.

Senator **Leahy**. The reason we are interested is because Senator Kasten and I are thinking of sending Senator Nickles and a couple of others over there in a couple of weeks.

Senator **Nickles**. One way? [Laughter.]

Senator **Leahy**. We will give an open-ended ticket, send them over for a couple weeks just to check on this and report back to us.

Senator **Nickles**. Thank you, Mr. Chairman.

Ms. **Rosenberg**. Well, they have a nice game park in northern Namibia, Mount Etjo, where the parties all got together. I have not had the experience of being there myself, but Windhoek is supposed to be quite nice too.

Senator **Leahy**. Actually, I'm going to go to Africa at some point this year.

Ms. **Rosenberg**. My colleague, Greg Bradford, may have a few more details. Would you like to add anything to what was said about the mechanisms?

Mr. **Bradford**. Certainly.

Gregory Bradford, Deputy Director, Office of Regional Affairs, Senator.

There are two points that you have raised in your opening comments and then in this one about SWAPO returning.

Since the order was issued for SWAPO insurgents to return by their political leader Sam Nujuma to Angola, they have been returning. They are reluctant to assemble and have not assembled at these U.N. designated points for past fears as well as this current propaganda that they heard about being interrogated if they assembled there.

So, our information is that they are returning across the border at night. They are being tracked by the South Africans, by the

South African territorial force, and some South African regular forces who have been sent to the front from South Africa.

We have been encouraged since late last week, after the conclusion of this emergency joint commission meeting, the United States and others. Primarily the United States has been encouraging the United Nations to deploy its forces at these border exfiltration and infiltration points and to monitor from the U.N. point of view the return of SWAPO to Angola. That has not happened yet, but the troops are moving to those locations, and we want them to, in fact, engage as the joint commission said they should, in joint patrols with the South Africans so that there is a U.N. verification of this movement back to Angola.

Senator **Nickles**. But we don't have that yet.

Mr. **Bradford**. I haven't seen anything yet this morning or over the weekend that says we actually have that, but as of Friday, there was a full court press to get the United Nations to engage in these joint patrols as the Mount Etjo declaration called for. And that issue is being worked very hard in New York and in Angola where senior U.N. representatives are now still working on the problem as well as in Windhoek with the UNTAG administrative headquarters.

CUBAN TROOP WITHDRAWAL

And on the verification, of course, in Angola, they have had United Nations—the United Nations has had personnel in Angola to monitor Cuban troop withdrawal, which was the point Senator Leahy mentioned earlier, since December.

And you mentioned the Brazilian general who made some erroneous statements at the time, and he has now been corrected. And he knows what his role is and how he will operate from the U.N. point of view.

In any case there are monitors at Cuban camps and sites in Angola, and there are monitors at the ports and airfields in Angola that are physically counting Cubans as they leave. And we have reporting from both our own technical sources as well as from open sources from the press and as well as from Havana of people who see Cubans returning. And the Cubans are making no bones about, even in the press, the glorious return of Cuban freedom fighters and peace makers coming back to Cuba.

Senator **Nickles**. So, the Cuban withdrawal has begun?

Mr. **Bradford**. It has.

Ms. **Rosenberg**. The Cuban withdrawal is quite on track.

Senator **Nickles**. You estimate 40,000 some. Is that correct?

Mr. **Bradford**. The agreement called for withdrawal of 50,000 Cubans from Angola to begin at the time of implementation. Three thousand had to be gone at the time of implementation, and they were. In fact, some Cubans returned or began to return even before that.

Senator **Nickles**. So, over what period of time are the 50,000 going to be withdrawn?

Mr. **Bradford**. Twenty-seven months.

Senator **Nickles**. And that has already begun.

Mr. **Bradford**. It has.

Senator **Nickles**. So, there are several thousand in that now.

Ms. **Rosenberg**. Yes.

Mr. **Bradford**. Yes; and we have provided and can provide again for staff or for yourselves fairly thick packages of information about the withdrawal timetables and checkpoints.

[The information follows:]

The Bilateral Agreement signed by Cuba and Angola on December 22, 1988 in New York calls for the total withdrawal of 50,000 Cuban troops over a 27-month period, beginning April 1, 1989. According to the agreement, a total of 25,000 Cuban troops must be withdrawn from Angola by November 1, 1989, 33,000 by April 1, 1990, 38,000 by October 1, 1990, and all 50,000 by July 1991. The agreement also calls for Cuban forces to be redeployed north to the 15th parallel by August 1, 1989 and then north to the 13th parallel by October 31, 1989.

The U.N. Secretary-General's report of December 17, 1988 (S/20338) to the Security Council lays out the mission, composition, organization, and method of operations of the United Nations Angola Verification Mission (UNAVEM). The Security-General's report calls for UNAVEM teams to be deployed at Angolan ports and airports to verify the departure of Cuban troops.

REPORT OF THE SECRETARY-GENERAL

1. On 17 December 1988 the Secretary-General received letters from the Permanent Representatives of Angola and Cuba which have been circulated as documents S/20336 and S/20337. In their letters the two Permanent Representatives informed the Secretary-General that, taking into account the fact that South Africa had formally undertaken to accept the implementation of Security Council resolution 435 (1978) with effect from 1 April 1989, it was the intention of their two Governments to sign, on 22 December 1988, an agreement providing for the redeployment northwards and the withdrawal of Cuban troops from the territory of Angola, in accordance with a timetable agreed between the two countries, and for verification by the United Nations of the implementation of the relevant provisions of the agreement. The two Permanent Representatives accordingly asked the Secretary-General to take the necessary steps to recommend to the Security Council that a group of United Nations military observers be set up to carry out this mandate, in accordance with the agreements which representatives of the two countries had already reached with the Secretariat.

2. The present report is submitted in order to help the Security Council to consider how it might respond to the request transmitted to it, through the Secretary-General, by Angola and Cuba. The report reflects the results of discussions which the Secretary-General has conducted in recent days with delegations from Angola and Cuba about how such an observer mission might be carried out, if the Security Council decides to accept the two Governments' request.

3. The mandate of the observer mission would be to verify the redeployment northwards and the phased and total withdrawal of Cuban troops from the territory of Angola in accordance with the timetable agreed between Angola and Cuba. It is recommended that, if the Council decides to accede to the request of Angola and Cuba, an observer group should be set up to carry out this mandate in the manner described in the following paragraphs.

4. The authorities of Angola and Cuba have informed me that the bilateral agreement between them will provide for the withdrawal of Cuban troops to begin on 1 April 1989 ("D-Day") and to be completed 27 months after that date. They have further informed me that the two Governments have agreed that 3,000 Cuban troops will be withdrawn before 1 April 1989, beginning in the month of January. The duration of the mission's mandate would thus be approximately 31 months, beginning seven days before the beginning of Cuban troop withdrawal and ending one month after the completion of the withdrawal.

5. The observer group, which would be known as the United Nations Angola Verification Mission (UNAVEM), would be under the command of the United Nations, vested in the Secretary-General, under the authority of the Security Council. The command in the field would be exercised by a Chief Military Observer (CMO), with the rank of Brigadier-General, appointed by the Secretary-General with the consent of the Security Council. The CMO would be responsible to the Secretary-General. The Secretary-General would keep the Security Council fully informed and would submit to it reports on the functioning of the Mission at regular intervals, taking into account the timetable for withdrawal agreed between Angola and Cuba. All matters which might affect the nature or the continued effective functioning of the Mission would be referred to the Council for its decision.

6. UNAVEM would be composed of:

(a) A number of unarmed military observers provided by certain Member States, at the request of the Secretary-General. The Member States would be selected in consultation with Angola and Cuba and with the Security Council, bearing in mind the accepted principle of equitable geographical distribution;

(b) Civilian support personnel, who would as a rule be provided by the Secretary-General from existing United Nations staff and who would follow the rules and regulations of the United Nations Secretariat.

7. UNAVEM would be organized into:

(a) A headquarters located at Luanda;

(b) A number of international military teams deployed at the ports and airports to be used for the departure and arrival of Cuban troops;

(c) A number of international military teams to be deployed by D-Day plus four months at locations relatively close to the line of the 15th parallel as adjusted and by D-Day plus seven months at locations relatively close to the line of the 13th parallel as similarly adjusted. 1/

8. To enable UNAVEM to verify both the redeployment northwards of Cuban troops and their withdrawal from Angola, the following concept of operations would be used:

(a) As soon as UNAVEM became operational, the CMO would receive from the Angolan and Cuban authorities the following information:

(i) The total number of Cuban troops present in Angola. The information on the main technical equipment to be withdrawn would be given as provided in paragraph 8 (b) below;

(ii) Details of the timetable for the withdrawal of troops, including the ports and airports to be used;

(b) The Angolan and Cuban authorites would give the CMO at least seven days' advance notification of each departure of Cuban troops and/or equipment and of any rotation of troops which might take place and of the ports and/or airports to be used in each case. The CMO would deploy, on a permanent basis, a number of teams at Angolan ports and airports to verify the departure of Cuban troops as they occurred and to record any troop rotations. All departures and arrivals would be recorded by UNAVEM headquarters;

(c) On the last day of each phase of the redeployment northwards of Cuban troops (i.e., on the last day of the fourth and seventh months after D-Day), the Angolan and Cuban authorities would confirm to the CMO in writing that all Cuban troops had been redeployed north of the adjusted 15th and 13th parallels respectively. They would also inform the CMO of all locations from which the Cuban troops had been withdrawn;

(d) On receipt of this information, the CMO would dispatch such international military verification teams as seemed to him necessary to the locations from which the Cuban troops had been withdrawn in order to confirm the redeployment already carried out;

(e) Thereafter, the CMO would carry out, either on his own initiative or at the request of a member of the Security Council to the Secretary-General, an *ad hoc* inspection at any time if the presence, or suspected presence, of Cuban troops was reported in a location from which they should by then have been redeployed in accordance with the timetable agreed between Angola and Cuba;

(f) The inspections referred to in subparagraphs (d) and (e) above would be carried out in co-ordination with the Angolan authorities, which would undertake to provide immediately the necessary escorts and any transport requirements not available from UNAVEM's own resources;

(g) If an inspection was made at the request of a member of the Security Council, its results would be conveyed to all the members of the Security Council.

9. To ensure the necessary liaison:

(a) A joint commission consisting of the CMO as chairman and one senior officer appointed by Angola and one by Cuba would be established for liaison purposes. The Angolan and Cuban officers would bear the rank of colonel or brigadier-general. The Joint Commission would co-ordinate United Nations verification of the redeployment and withdrawal of Cuban troops and would resolve any problems that might arise. If Angola and Cuba wished, representatives of other countries and/or international organizations could attend the Joint Commission's meetings as observers;

(b) Angola and Cuba would designate liaison officers to accompany United Nations verification teams in the performance of their duties at the ports and airports of departure and arrival. To the south of the adjusted parallels, the officers would be Angolans;

(c) A direct telephone link would be established between UNAVEM headquarters and the command headquarters of the Angolan and Cuban forces.

10. To facilitate the work of UNAVEM, Angola and Cuba would agree to:

(a) Provide to the CMO the information referred to in paragraph 8 above;

(b) Extend full support and co-operation to UNAVEM and its civilian supporting staff at all times in the performance of their functions.

Additionally, Angola would agree to:

(c) Grant UNAVEM all relevant privileges and immunities provided by the Convention on the Privileges and Immunities of the United Nations; 2/

(d) Provide, at its cost, office accommodation required by UNAVEM;

(e) The arrival and establishment of UNAVEM in Angola at least seven days before the start of the agreed timetable for the redeployment northwards and withdrawal of Cuban forces;

(f) Allow UNAVEM complete freedom of movement and communications for the performance of its mandate;

(g) Provide, at its cost, land and air transport, not available from UNAVEM's own resources, with special reference to the inspections referred to in paragraphs 8 (d) and (e) above;

(h) Ensure the security and safety of UNAVEM and all personnel assigned to it.

Other specific questions would be discussed and settled in the Joint Commission.

11. In the light of the concept of operations described in paragraph 8 above and given the readiness of Angola and Cuba to provide UNAVEM with the necessary assistance, I estimate that UNAVEM would need up to 70 military observers, together with about 20 civilian support personnel. This estimate is based on information provided by Angola and Cuba about the ports and airports which would be used during the various phases of the agreed timetable. It might have to be adjusted upwards if additional ports and airports were to be used at a later stage.

12. If the Security Council decides to accept the request of Angola and Cuba and if the Council further approves the arrangements recommended in the present report, I would propose to take the following steps:

(a) After consulting with the parties, I would seek the Council's very early consent to the appointment of the CMO and to the composition of UNAVEM;

(b) Given that the first Cuban troops will leave Angola during January 1989, I would deploy an advance party of approximately 30 observers to Luanda on or about 3 January 1989;

(c) The remainder of the group, approximately 40 observers, would be deployed to Angola on or about 20 March 1989.

13. As regards the cost of UNAVEM to the United Nations, there are at present many unknown factors. The best possible preliminary estimate, based upon experience of other peace-keeping operations, is that it would cost approximately $20.4 million for the full 31-month period of UNAVEM's mandate. Approximately $9.8 million of this sum would be required during 1989.

14. It is recommended that if the Council decides to set up UNAVEM, the costs of the operation should be considered as expenses of the Organization to be borne by the Member States in accordance with Article 17, paragraph 2, of the Charter. I would recommend to the General Assembly that the assessments to be levied on Member States be credited to a special account which would be established for this purpose.

Notes

1/ The "adjusted 15th parallel" is a direct line from a point on the coast 30 kilometres south of Namibe to a point on the west bank of the Cunene River, 30 kilometres south of the 15th parallel; thence northwards up the west bank of the Cunene River to the 15th parallel; and thence eastwards along the 15th parallel to the Angolan-Zambian border. The "adjusted 13th parallel" is a line running 30 kilometres south of the 13th parallel from the coast to the 16th meridian; thence northwards up to the 16th meridian to the 13th parallel; and thence eastwards to the Angolan-Zambian border.

2/ Resolution 22 A (I).

Selected
Documents
No. 32

Agreements for Peace in Southwestern Africa

United States Department of State
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Principles for a Peaceful Settlement in Southwestern Africa, July 20, 1988

Following is the text of the agreement initialed by delegations from Angola/Cuba and South Africa in New York City on July 13, 1988. This statement was approved by their respective governments and released publicly by mutual agreement on July 20, 1988.

The Governments of the People's Republic of Angola, the Republic of Cuba, and the Republic of South Africa have reached agreement on a set of essential principles to establish the basis for peace in the southwestern region of Africa. They recognize that each of these principles is indispensable to a comprehensive settlement.

A. Implementation of Resolution 435/78 of the Security Council of the United Nations. The parties shall agree upon and recommend to the Secretary-General of the United Nations a date for the commencement of implementation of UNSCR 435/78.

B. The Governments of the People's Republic of Angola and of the Republic of South Africa shall, in conformity with the dispositions of Resolution 435/78 of the Security Council of the United Nations, cooperate with the Secretary-General with a view toward ensuring the independence of Namibia through free and fair elections, abstaining from any action that could prevent the execution of said Resolution.

C. Redeployment toward the North and the staged and total withdrawal of Cuban troops from the territory of the People's Republic of Angola on the basis of an agreement between the People's Republic of Angola and the Republic of Cuba and the decision of both states to solicit the on-site verification of that withdrawal by the Security Council of the United Nations.

D. Respect for the sovereignty, sovereign equality, and independence of states and for territorial integrity and inviolability of borders.

E. Non-interference in the internal affairs of states.

F. Abstention from the threat and utilization of force against the territorial integrity and independence of states.

G. The acceptance of the responsibility of states not to allow their territory to be used for acts of war, aggression, or violence against other states.

H. Reaffirmation of the right of the peoples of the southwestern region of Africa to self-determination, independence, and equality of rights.

I. Verification and monitoring of compliance with the obligations resulting from the agreements that may be established.

J. Commitment to comply in good faith with the obligations undertaken in the agreements that may be established and to resolve the differences via negotiations.

K. Recognition of the role of the Permanent Members of the Security Council of the United Nations as guarantors for the implementation of agreements that may be established.

L. The right of each state to peace, development, and social progress.

M. African and international cooperation for the settlement of the problems of the development of the southwestern region of Africa.

N. Recognition of the mediating role of the Government of the United States of America.

Remarks by Assistant Secretary Crocker, December 13, 1988

Following are remarks by Chester A. Crocker, Assistant Secretary for African Affairs, at the signing of the Brazzaville Protocol in Brazzaville, Congo, on December 13, 1988, by delegations from Angola, Cuba, and South Africa.

Today's ceremony—the signing of the Brazzaville Protocol by Angola, Cuba, and South Africa—is the culmination of many months of hard work by distinguished representatives of three sovereign governments which, faced by a stark choice of peace or war, chose to work for peace. With the signature of this protocol, the path is now clear for early signature of a tripartite agreement that will bring an end to the international conflict in southwestern Africa. This event signifies the end of a sad chapter in Africa's modern history and the beginning of a new chapter. Speaking for my government, we have high hopes that this will be a chapter that witnesses reduced internal and international strife, greater opportunity for the building of just and prosperous societies, and strengthened prospects for international cooperation in support of African development and stability.

On behalf of the delegation of the United States, which has had the honor to serve as mediator in these negotiations, and on behalf of the delegations of the three governments here present today, I would like to express our deepest gratitude to you, Mr. President [Denis Sassou-Nguesso]. As the leader of the People's Republic of the Congo, we salute your own contributions to this historic peace process in southern Africa. I recall that in April 1987 it was your invitation, while chairman of the Organization of African Unity, to meet in Brazzaville that served as a catalyst to restore and reinvigorate contact and dialogue between my government and the Government of the People's Republic of Angola. Today is the fifth occasion since that meeting nearly 2 years ago that we have assembled in Brazzaville in our joint search for peace in the region. Your hospitality, Mr. President, and the cooperation and assistance of the Government of the People's Republic of the Congo have been a vital part of this process. You have encouraged us and supported us, and we are most grateful.

It is also appropriate today to salute the determination and professionalism of the delegations from Angola, Cuba, and South Africa that over the past 8 months have met in London, Cairo, Geneva, New York, and here in Brazzaville. The process has been long, painstaking, and often frustrating for everyone concerned. Without the extraordinary dedication and skill of the principal negotiators, we would not have been able to achieve this settlement. I would also like to pay tribute to two parties who have not been present officially at the negotiating table but whose cooperation and assistance have been crucial throughout the course of these negotiations.

As mediator, we have developed a pattern of close, practical, and effective cooperation with our Soviet counterparts. Despite some differences in perspective and different roles in the negotiating process, the United States and the U.S.S.R. have been able to work cooperatively to move the process forward. It has been a case study of superpower effort to support the resolution of regional conflicts. So, I would like to salute the hard work and professional dedication of the Soviet officials who have been involved in this intensive effort over the past months.

The United Nations has the responsibility to implement UN Security Council Resolution 435/78 and to oversee the transition to Namibian independence, as well as to verify the withdrawal of Cuban troops from Angola. These are complex undertakings and are essential for the successful implementation of the agreements the parties are entering into. We have been fortunate to have had the benefit of the advice, support, and counsel of a real statesman, UN Secretary General Javier Perez de Cuellar, and of another distinguished international civil servant, Under Secretary General Martti Ahtisaari, and his colleagues from the United Nations, through the negotiations.

In conclusion, I would like to say a word about my own country and its role in the search for a peaceful solution in Africa. As this protracted negotiation means a successful conclusion, it is worth noting the ingredients that have made success possible. First, our role has been welcomed by our partners in Africa and by our friends and allies around the world. My country does not have blueprints for the solution of every problem or a mandate to play such a role. But we are prepared to involve ourselves in the search for constructive solutions when such a role is welcomed and appropriate. Second, we have been realists. We have recognized that lasting solutions can only be based on the concrete historical realities of a given situation. Just as man cannot eat slogans, neither can statesmen solve problems with rhetorical cliches and abstract formulas. Third, we have tried to chart a clear course and stick with it. This is an approach that may sometimes fall short of shifting fashions and popular hopes for instant results. But over time this is the approach that gives confidence and predictability to key decisionmakers. It is the approach that works.

Protocol of Brazzaville, December 13, 1988

Delegations representing the Governments of the People's Republic of Angola, the Republic of Cuba, and the Republic of South Africa,

Meeting in Brazzaville with the mediation of the Government of the United States of America,

Expressing their deep appreciation to the President of the People's Republic of the Congo, Colonel Denis Sassou-Nguesso, for his indispensable contribution to the cause of peace in Southwestern Africa and for the hospitality extended to the delegations by the Government of the People's Republic of the Congo,

Confirming their commitment to act in accordance with the Principles for a Peaceful Settlement in Southwestern Africa, initialled at New York on 13 July 1988 and approved by their respective Governments on 20 July 1988, each of which is indispensable to a comprehensive settlement; with the understandings reached at Geneva on 5 August 1988 that are not superseded by this document; and with the agreement reached at Geneva on 15 November 1988 for the redeployment to the North and the staged and total withdrawal of Cuban troops from Angola,

Urging the international community to provide economic and financial support for the implementation of all aspects of this settlement,

Agree as follows:

1. The parties agree to recommend to the Secretary General of the United Nations that 1 April 1989 be established as the date for implementation of UNSCR 435/78.

2. The parties agree to meet on 22 December 1988 in New York for signature of the tripartite agreement and for signature by Angola and Cuba of their bilateral agreement. By the date of signature, Angola and Cuba shall have reached agreement with the Secretary General of the United Nations on verification arrangements to be approved by the Security Council.

3. The parties agree to exchange the prisoners of war upon signature of the tripartite agreement.

4. The parties agree to establish a Joint Commission in accordance with the annex attached to this protocol.

Annex on the Joint Commission

1. With the objective of facilitating the resolution of any dispute regarding the interpretation or implementation of the tripartite agreement, the parties hereby establish a Joint Commission, which shall begin its work upon signature of the tripartite agreement.

2. The Joint Commission shall serve as a forum for discussion and resolution of issues regarding the interpretation and implementation of the tripartite agreement, and for such other purposes as the parties in the future may mutually agree.

3. The parties invite the United States of America and the Union of Soviet Socialist Republics to participate as observers in the work of the Commission. Furthermore, the parties agree that, upon the independence of Namibia, the Namibian Government should be included as a full member of the Joint Commission. To that end, the parties will extend a formal invitation to the Namibian Government to join the Joint Commission on the date of Namibian independence.

4. The Joint Commission shall be constituted within thirty days of the signing of the tripartite agreement. The Joint Commission shall establish its own regulations and rules of procedure for regular meetings and for special meetings which may be requested by any party.

5. The decision by a party to discuss or seek the resolution of an issue in the Joint Commission shall not prejudice the right of that party to raise the issue, as it deems appropriate, before the Security Council of the United Nations or to pursue such other means of dispute resolution as are available under international law.

6. The Joint Commission shall in no way function as a substitute for UNTAG (including the monitoring role of UNTAG outside Namibia) or for the UN entity performing verification in Angola.

Remarks by Secretary Shultz, December 22, 1986

Following are remarks by Secretary Shultz at the signing of the tripartite agreement among Angola, Cuba, and South Africa and the bilateral agreement between Angola and Cuba at the United Nations, New York City, December 22, 1988.

We meet here today for the signing of two major agreements: a bilateral agreement between the People's Republic of Angola and the Republic of Cuba, and a tripartite accord among the People's Republic of Angola, the Republic of Cuba, and the Republic of South Africa.

The first order of business this morning is the signing of the trilateral agreement, and I now invite His Excellency the Foreign Minister of the People's Republic of Angola, Afonso Van Dunem, His Excellency the Foreign Minister of Cuba, Isidoro Octavio Malmierca, and His Excellency the Foreign Minister of the Republic of South Africa, R.F. Botha to sign their trilateral agreement.

Mr. Secretary General [Javier Perez de Cuellar], on behalf of the United States as mediator of these now-concluded negotiations—and I am very pleased to take note of the fact that Assistant Secretary of State [for African Affairs] Dr. Chester Crocker is here, and he was the mediator and a person that we all know played a very important role in all this, and on behalf of my government, and on behalf of the parties themselves—Angola, Cuba, and South Africa—I am honored to present to the community of nations—through you—the agreement just signed by these ministers.

This is an occasion for both celebration and sober reflection. We have just witnessed the signing of an unprecedented agreement that will bring long-awaited peace to southwestern Africa and independence to Namibia. It is appropriate that we do so at the Headquarters of the United Nations, where 10 years ago the Security Council adopted Resolution 435. Today we are privileged to participate in the culmination of a decade of effort to implement the UN plan to assist Namibia in taking its rightful place in the family of nations.

The regional settlement concluded here today represents a momentous turning point in the history of southern Africa. With the independence of Namibia, Africa's last colonial question will have been resolved. As the guns fall silent across the borders of southwestern Africa, the world will look to the nations of that vast region to turn to resolution of their pressing internal problems through peaceful means. We are especially mindful of the heavy responsibility assumed by the parties to the tripartite agreement and by the international community to see that the commitments undertaken today are fully and faithfully implemented. Nothing else will adequately respond to the aspirations of all the peoples of southwestern Africa for a new era of peace and prosperity.

I salute the negotiators of the agreement. In an age of mass media and public diplomacy, we are sometimes told that the ancient arts of negotiation—communication, compromise, and, above all, patience—are no longer relevant. You have proven otherwise. Each of your governments empowered you to negotiate and supported you with bold and timely decisions for peace. Your triumph has vindicated their faith in you and will give heart to others who still struggle to resolve conflicts around the world. You have reminded us all that, even in the complex world of modern diplomacy, individuals do make a difference.

We welcome the presence today of Deputy Foreign Minister Adamishin and Department Head Vasev as representatives of the Soviet Union. It is fitting that they be here because the

Soviet Union has played an important and constructive role in the peace process in southwestern Africa. The parties themselves made the sovereign decision for peace, but, in doing so, they have been encouraged and strongly supported by both the United States and the Soviet Union. Though our roles have been different, our close cooperation has made an effective contribution to the achievement of this agreement. Let us hope that we can both draw from our experience in this process as we continue our regional dialogue aimed at peaceful resolution of other pressing regional conflicts.

Now that the parties have signed their trilateral agreement, the United Nations will undertake in earnest the formidable task of implementing Security Council Resolution 435. This will be a complex undertaking requiring considerable expenditure of resources in an era of tight budgets for member governments and the United Nations itself. I reaffirm today that the United States will do its share. We look to other member states to join us in this great endeavor.

The United Nations can be justly proud of its leading role in the implementation of this regional settlement. The UN Transition Assistance Group will have the challenging task of ensuring free and fair elections leading to independence in Namibia. The United Nations also has been requested by the Governments of the People's Republic of Angola and the Republic of Cuba to verify the departure of Cuban troops from Angola. The Secretary General, his Special Representative for Namibia Martti Ahtisaari, and their team enjoy the full confidence of the parties and the member states. I am confident that they will perform magnificently, further enhancing the prestige of the United Nations.

At this season millions of people around the world consider in a special way the meaning of peace on earth and look forward with hope to a new year. The governments and individuals gathered together in this place have truly given the world a special gift. They have given us all a fresh and very welcome demonstration of the human capacity to put aside the tools of war in favor of the instruments of peace.

Tripartite Agreement, December 22, 1988

Agreement Among
the People's Republic of Angola,
the Republic of Cuba,
and
the Republic of South Africa

The governments of the People's Republic of Angola, the Republic of Cuba, and the Republic of South Africa, hereinafter designated as "the Parties,"

Taking into account the "Principles for a Peaceful Settlement in Southwestern Africa," approved by the Parties on 20 July 1988, and the subsequent negotiations with respect to the implementation of these Principles, each of which is indispensable to a comprehensive settlement,

Considering the acceptance by the Parties of the implementation of United Nations Security Council Resolution 435 (1978), adopted on 29 September 1978, hereinafter designated as "UNSCR 435/78,"

Considering the conclusion of the bilateral agreement between the People's Republic of Angola and the Republic of Cuba providing for the redeployment toward the North and the staged and total withdrawal of Cuban troops from the territory of the People's Republic of Angola,

Recognizing the role of the United Nations Security Council in implementing UNSCR 435/78 and in supporting the implementation of the present agreement,

Affirming the sovereignty, sovereign equality, and independence of all states of southwestern Africa,

Affirming the principle of noninterference in the internal affairs of states,

Affirming the principle of abstention from the threat or use of force against the territorial integrity or political independence of states,

Reaffirming the right of the peoples of the southwestern region of Africa to self-determination, independence, and equality of rights, and of the states of southwestern Africa to peace, development, and social progress,

Urging African and international cooperation for the settlement of the problems of the development of the southwestern region of Africa,

Expressing their appreciation for the mediating role of the Government of the United States of America,

Desiring to contribute to the establishment of peace and security in southwestern Africa,

Agree to the provisions set forth below.

(1) The Parties shall immediately request the Secretary-General of the United Nations to seek authority from the Security Council to commence implementation of UNSCR 435/78 on 1 April 1989.

(2) All military forces of the Republic of South Africa shall depart Namibia in accordance with UNSCR 435/78.

(3) Consistent with the provisions of UNSCR 435/78, the Republic of South Africa and People's Republic of Angola shall cooperate with the Secretary-General to ensure the independence of Namibia through free and fair elections and shall abstain from any action that could prevent the execution of UNSCR 435/78. The Parties shall respect the territorial integrity and inviolability of borders of Namibia and shall ensure that their territories are not used by any state, organization, or person in connection with acts of war, aggression, or violence against the territorial integrity or inviolability of borders of Namibia or any other action which could prevent the execution of UNSCR 435/78.

(4) The People's Republic of Angola and the Republic of Cuba shall implement the bilateral agreement, signed on the date of signature of this agreement, providing for the redeployment toward the North and the staged and total withdrawal of Cuban troops from the territory of the People's Republic of Angola, and the arrangements made with the Security Council of the United Nations for the on-site verification of that withdrawal.

(5) Consistent with their obligations under the Charter of the United Nations, the Parties shall refrain from the threat or use of force, and shall ensure that their respective territories are not used by any state, organization, or person in connection with any acts of war, aggression, or violence, against the territorial integrity, inviolability of borders, or independence of any state of southwestern Africa.

(6) The Parties shall respect the principle of non-interference in the internal affairs of the states of southwestern Africa.

(7) The Parties shall comply in good faith with all obligations undertaken in this agreement and shall resolve through negotiation and in a

spirit of cooperation any disputes with respect to the interpretation or implementation thereof.

(8) This agreement shall enter into force upon signature.

Signed at New York in triplicate in the Portuguese, Spanish and English languages, each language being equally authentic, this 22nd day of December 1988.

FOR THE PEOPLE'S REPUBLIC OF ANGOLA

AFONSO VAN DUNEM

FOR THE REPUBLIC OF CUBA

ISIDORO OCTAVIO MALMIERCA

FOR THE REPUBLIC OF SOUTH AFRICA

ROELOF F. BOTHA

Bilateral Agreement, December 22, 1988

Following is the unofficial U.S. translation of the original Portuguese and Spanish texts of the agreement, with annex.

AGREEMENT BETWEEN THE GOVERNMENTS OF THE PEOPLE'S REPUBLIC OF ANGOLA AND THE REPUBLIC OF CUBA FOR THE TERMINATION OF THE INTERNATIONALIST MISSION OF THE CUBAN MILITARY CONTINGENT

The Government of the People's Republic of Angola and the Republic of Cuba, hereinafter designated as the Parties,

Considering,

That the implementation of Resolution 435 of the Security Council of the United Nations for the independence of Namibia shall commence on the 1st of April,

That the question of the independence of Namibia and the safeguarding of the sovereignty, independence and territorial integrity of the People's Republic of Angola are closely interrelated with each other and with peace and security in the region of southwestern Africa,

That on the date of signature of this agreement a tripartite agreement among the Governments of the People's Republic of Angola, the Republic of Cuba and the Republic of South Africa shall be signed, containing the essential elements for the achievement of peace in the region of southwestern Africa,

That acceptance of and strict compliance with the foregoing will bring to an end the reasons which compelled the Government of the People's Republic of Angola to request, in the legitimate exercise of its rights under Article 51 of the United Nations Charter, the deployment to Angolan territory of a Cuban internationalist military contingent to guarantee, in cooperation with the FAPLA [the Angolan Government army], its territorial integrity and sovereignty in view of the invasion and occupation of part of its territory,

Noting,

The agreements signed by the Governments of the People's Republic of Angola and the Republic of Cuba on 4 February 1982 and 19 March 1984, the platform of the Government of the People's Republic of Angola approved in November 1984, and the Protocol of Brazzaville signed by the Governments of the People's Republic of Angola, the Republic of Cuba and the Republic of South Africa on December 13, 1988,

Taking into account,

That conditions now exist which make possible the repatriation of the Cuban military contingent currently in Angolan territory and the successful accomplishment of their internationalist mission,

The parties agree as follows:

Article 1

To commence the redeployment by stages to the 15th and 13th parallels and the total withdrawal to Cuba of the 50,000 men who constitute the Cuban troops contingent stationed in the People's Republic of Angola, in accordance with the pace and timeframe established in the attached calendar, which is an integral part of this agreement. The total withdrawal shall be completed by the 1st of July, 1991.

Article 2

The Governments of the People's Republic of Angola and the Republic of Cuba reserve the right to modify or alter their obligations deriving from Article 1 of this Agreement in the event that flagrant violations of the Tripartite Agreement are verified.

Article 3

The Parties, through the Secretary General of the United Nations Organization, hereby request that the Security Council verify the redeployment and phased and total withdrawal of Cuban troops from the territory of the People's Republic of Angola, and to this end shall agree on a matching protocol.

Article 4

This agreement shall enter into force upon signature of the tripartite agreement among the People's Republic of Angola, the Republic of Cuba, and the Republic of South Africa.

Signed on 22 December 1988, at the Headquarters of the United Nations Organization, in two copies, in the Portuguese and Spanish languages, each being equally authentic.

FOR THE PEOPLE'S REPUBLIC OF ANGOLA

AFONSO VAN DUNEM

FOR THE REPUBLIC OF CUBA

ISIDORO OCTAVIO MALMIERCA

Annex on Troop Withdrawal Schedule

CALENDAR

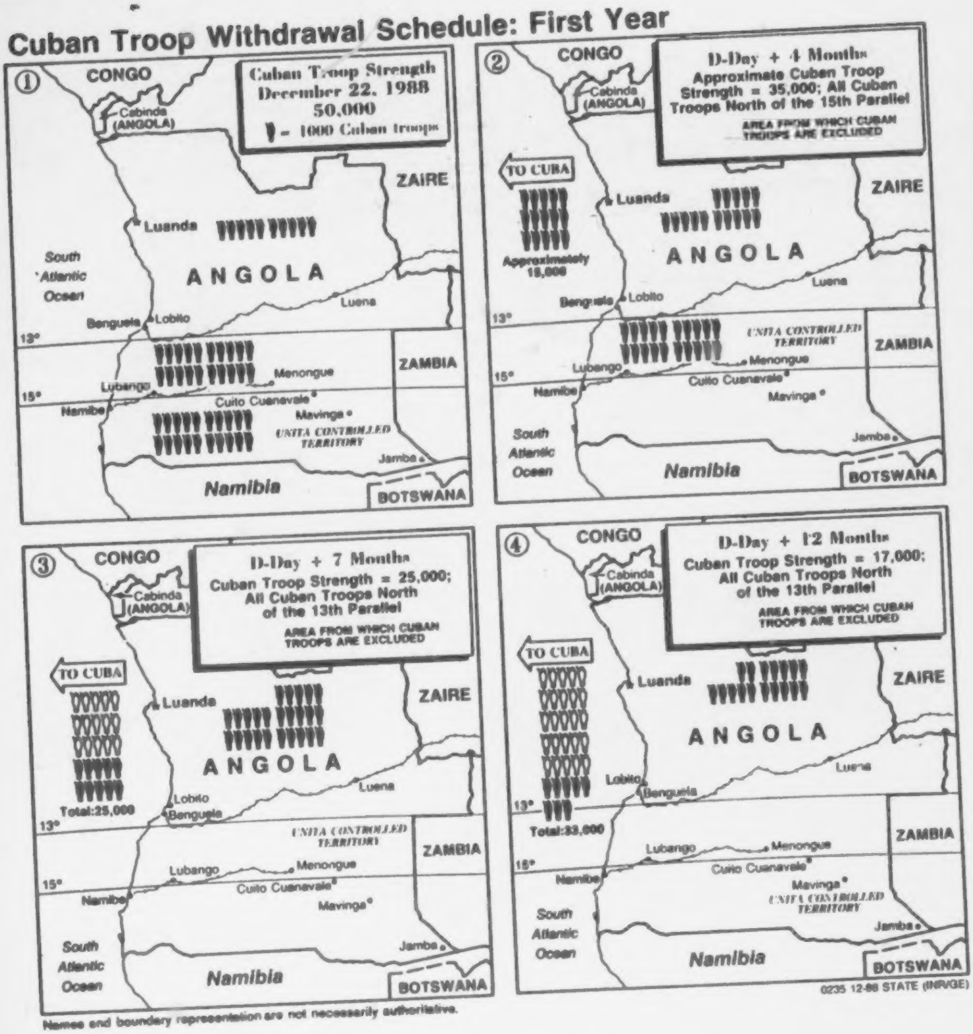
In compliance with Article 1 of the agreement between the Government of the Republic of Cuba and the Government of the People's Republic of Angola for the termination of the mission of the Cuban internationalist military contingent stationed in Angolan territory, the parties establish the following calendar for the withdrawal:

Time Frames

Prior to the first of April, 1989 (date of the beginning of implementation of Resolution 435)	3,000 men
Total duration of the calendar Starting from the 1st of April, 1989	27 months
Redeployment to the north:	
to the 15th parallel	by 1 August 1989
to the 13th parallel	by 31 Oct. 1989
Total men to be withdrawn:	
by 1 November 1989	25,000 men (50%)
by 1 April 1990	33,000 (66%)
by 1 October 1990	38,000 (76%); 12,000 men remaining
by July 1991	50,000 (100%)

Taking as its base a Cuban force of 50,000 men.

Cuban Troop Withdrawal Schedule: First Year


①
CONGO
Cabinda (ANGOLA)
Cuban Troop Strength December 22, 1988 50,000
= 1000 Cuban troops
ZAIRE
Luanda
South Atlantic Ocean
ANGOLA
Benguela
Lobito
Luena
13°
ZAMBIA
Menongue
Lubango
15°
Namibe
Cuito Cuanavale
Mavinga
UNITA CONTROLLED TERRITORY
Jamba
Namibia
BOTSWANA
②
CONGO
Cabinda (ANGOLA)
D-Day + 4 Months
Approximate Cuban Troop Strength = 35,000; All Cuban Troops North of the 15th Parallel
AREA FROM WHICH CUBAN TROOPS ARE EXCLUDED
TO CUBA
Approximately 15,000
ZAIRE
Luanda
ANGOLA
Benguela
Lobito
Luena
13°
UNITA CONTROLLED TERRITORY
ZAMBIA
Menongue
Lubango
15°
Namibe
Cuito Cuanavale
Mavinga
South Atlantic Ocean
Jamba
Namibia
BOTSWANA
③
CONGO
Cabinda (ANGOLA)
D-Day + 7 Months
Cuban Troop Strength = 25,000; All Cuban Troops North of the 13th Parallel
AREA FROM WHICH CUBAN TROOPS ARE EXCLUDED
TO CUBA
Luanda
ZAIRE
ANGOLA
Total:25,000
Lobito
Benguela
Luena
13°
UNITA CONTROLLED TERRITORY
ZAMBIA
Lubango
Menongue
15°
Cuito Cuanavale
Namibe
Mavinga
South Atlantic Ocean
Jamba
Namibia
BOTSWANA
④
CONGO
Cabinda (ANGOLA)
D-Day + 12 Months
Cuban Troop Strength = 17,000; All Cuban Troops North of the 13th Parallel
AREA FROM WHICH CUBAN TROOPS ARE EXCLUDED
TO CUBA
Luanda
ZAIRE
ANGOLA
Lobito
Benguela
Luena
13°
Total:33,000
ZAMBIA
Lubango
Menongue
15°
Namibe
Cuito Cuanavale
Mavinga
UNITA CONTROLLED TERRITORY
South Atlantic Ocean
Jamba
Namibia
BOTSWANA

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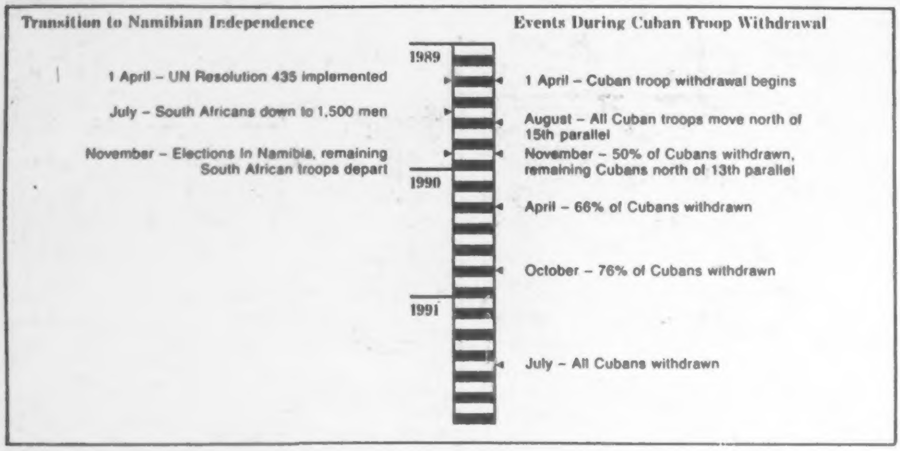
Names and boundary representation are not necessarily authoritative.

Schedule of Events


Transition to Namibian Independence
Events During Cuban Troop Withdrawal
1989
1 April – UN Resolution 435 implemented
1 April – Cuban troop withdrawal begins
July – South Africans down to 1,500 men
August – All Cuban troops move north of 15th parallel
November – Elections in Namibia, remaining South African troops depart
November – 50% of Cubans withdrawn, remaining Cubans north of 13th parallel
1990
April – 66% of Cubans withdrawn
October – 76% of Cubans withdrawn
1991
July – All Cubans withdrawn

Provisions of UN Resolution 435

Following agreement on a date to implement UN Resolution 435 and establishment of a formal cease-fire, a UN representative and a UN planning group would administer Namibia during the transition to independence in conjunction with the South African-appointed Administrator General. A UN Transitional Assistance Group (UNTAG) would supervise the cease-fire and monitor South African and South West Africa People's Organization (SWAPO) forces.

Within three months of a cease-fire, South African forces would be reduced to 1,500 men, confined to one or two bases in northern Namibia. SWAPO forces would be restricted to specified locations in Angola under UN supervision. All political prisoners held by both sides would be released.

Seven months after the implementation date, elections would be held under UN auspices for a new constituent assembly. The remaining South African troops would depart within a few months, once elections were certified by the UN and independence granted. Unarmed SWAPO members and Namibian refugees would be permitted to return to participate in the election process. ■

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U.N. FORCE IN ANGOLA AND NAMIBIA

Senator NICKLES. How large a U.N. force do we have in Angola and Namibia?

Mr. BRADFORD. It is going to be 4,600 round numbers in Namibia, and in Angola, the number reaches I think in the 70's, 72 or 79, which seems like a very small number of monitors. But, in fact, as long as you have got two or three monitors at each checkpoint—and these were worked out by the United Nations, by the way, not by us—they can verify they say the Cuban troop withdrawal from Angola.

Senator NICKLES. Has the fighting desisted in Angola?

Mr. BRADFORD. There have been clashes throughout the period of the negotiations, stretching back over the last year, between UNITA forces and MPLA forces. I haven't seen any recent reporting in the last couple of months of any serious clashes between those forces.

Mr. KERN. There are no pitched battles or have not been recently, but UNITA continues to be active throughout Angola, be militarily active throughout Angola.

PEACE IS KEY TO SUDAN SITUATION

Ms. ROSENBERG. Could I mention something switching back to Sudan for a moment, Mr. Chairman?

Senator LEAHY. Sure.

Ms. **Rosenberg**. Just by way of an update on the situation there. We all agree that peace is really the key to so many of the other problems, including our ability to do serious development work in that country, and certainly including the human rights problems, certainly including facilitating relief and so on. Last November, I think it was, there was a peace accord agreed to by the insurgent group, the SPLA, and one of the leading members of the government of Sadiq al Madhi as then comprised, the DUP party; it called for a number of steps.

One of the most important demands was no action on, the virtual killing of, a bill that was pending in the parliament to make sharia an enforceable law. This was a major sticking point, as you probably know, among the grievances of the southerners, that the government would impose sharia law and follow it up with enforcement penalties on the entire population of the country. In the recent past we were encouraged by the reorganization of the government by the prime minister after a lot of heavy encouragement from the military, among other elements, to put peace on the front burner. The parliament endorsed the prime minister's endorsement of this peace agreement. That was step one.

And just a few days ago, they voted essentially to kill the sharia law bill. We think this has tremendous significance for the future. We don't have peace yet, and there is a way to go, but I am only pointing this out because I think after all this time, it is a tremendously encouraging step in the right direction.

Ironically it is the SPLA that is dragging its feet right now because they are doing very well militarily. They are poised now to try to capture the southern region capital of Juba. It would probably be quite a psychological feather in their cap, but it doesn't work in the interest of peace. It complicates food relief and so on. So, at the moment, the foot-dragging is coming from the insurgents. But we have to believe that overall it is in the interest of both sides to push on the peace front. If we can really get somewhere on this thing, it obviously has tremendous implications for everything in Sudan, all the kinds of problems that you have been talking about.

UNTAG GENERAL MISSPOKE

Senator **Nickles**. Mr. Chairman, one final question. I think you alluded to it earlier. You mentioned the Brazilian general who is in charge of the U.N. mission in Angola. He made the statement of, well, when the Cuban zealots are all gone, we will accept that they are all gone. Were you alluding to that when you said that he has been corrected and that was an incorrect statement?

Ms. **Rosenberg**. Yes.

Mr. **Bradford**. Yes; that's correct. That is an incorrect statement. And he was given his specific orders by the under secretary for political affairs, Mr. Goulding, from New York who went to Luvanda shortly after that statement and, in fact, assigned a senior political, shall we say, adviser to the Brazilian general who will clear his future press reports and makes sure he understands orders.

Senator **Leahy**. It got my attention.

Mr. **Bradford**. It got everyone's attention, sir.

Senator **Nickles**. And the orders are that there would be a total withdrawal and that he would work to verify the total Cuban withdrawal.

Mr. **Bradford**. Absolutely correct.

POPULATION GROWTH IN AFRICA

Senator **Leahy**. Let's return to the population growth in Africa. In most countries the birthrates are close to and in some cases exceed 3 percent. The countries can't even feed themselves today, and in less than 40 years they are going to have double the population. There is no way, no matter what we do, that economic growth is going to keep up with that. Why aren't we doing an awful lot more on population control in those countries? We're helping out in providing education mechanisms, everything else, except population control.

I mean, we ought to do this as part of everything else we do.

Mr. **Bollinger**. We are making a major effort to support family planning and population programs. African countries are latecomers in recognizing that they have a problem. Until relatively recently a large number of African countries followed pronatalist policies.

But in the past 5 to 6 years, one has seen a turnaround. There are now some 20 African countries which, as a matter of national policy, have installed family planning programs. We have supported those efforts to a very large extent. We have some $64 million targeted on population programs in fiscal year 1990.

But the major constraint in mounting family planning programs, as it is with mounting so many other programs in Africa, is the limitation that one comes up against in terms of African institutions and trained manpower to implement programs. We feel that we are making the maximum effort possible within the absorptive capacity that currently exists among African institutions.

Now, that is not to say that there has not been a bit of progress. And here again, I find myself, interestingly, in the position of identifying a few signs of optimism. We have tracked the family planning programs in Botswana, Zimbabwe, and Kenya, and over the past 6 years, those programs have seen prevalence of contraceptive use, that is the number of fertile couples using contraception, grow from 2 percent to 15 percent.

And there is evidence, based on a recently completed study, that prevalence of contraceptive use has been translated into lower fertility rates in Botswana and Zimbabwe, very significant lower fertility rates. The report on Kenya isn't completed yet, but the expectation is that that will also show a decline in fertility. Kenya has one of the fastest growing populations in Africa.

So, we very much share your concerns. We very much share your frustration of not being able to do more, but I think that our effort represents the maximum reasonable level possible within the African institutional and manpower environment in which we have to work.

Senator **Leahy**. The reason I ask is that in the development fund for Africa, DFA, you set targets of 10 percent for population and child survival and environment. The pie charts that you put with your statement say that 6.4 percent was spent on population in fiscal year 1988, 6.5 percent being spent this year.

Mr. **Bollinger**. May I just interject if I could please?

Senator **Leahy**. Sure.

Mr. **Bollinger**. That is just out of the DFA. We have additional funds that come from other accounts that significantly increase the level of resources being spent for Africa.

Senator **Leahy**. You took some funds from the population account and the DFA to make up the same target. We get into this debate on earmarking, but basically what we do is put 10 percent on DFA. If you got extra money from the centrally funded population account, fine. Then add that on.

Mr. **Bollinger**. Sir, I think if our interpretation is correct, the earmarked target can be met using a combination of funds from the DFA and the central accounts, and doing that we exceeded the targets in all areas except for natural resources.

Senator **Leahy**. I think that has been the interpretation we received from the other end of Pennsylvania Avenue, but I don't think it is the interpretation here. And I don't want to get into a lengthy debate on that. You may want to discuss that with some of the staff here on the committee because I wasn't part of that debate last year. So, I went back and tried to reconstruct it. I think the potential was 10 percent out of the DFA. You may want to chat about that a bit.

I can tell you right now, just for whatever it is worth, as one member of this subcommittee, I really intend to urge more and more steps on population control. Now, I also understand, as you suggested, you can't simply step in and say population control, do it, and expect that that is going to be it.

But I also know the reluctance endured in the past 8 years in this administration to do anything that even smacks of population control. That is not a reluctance shared by everybody in the Congress by any means, nor do I think it is a reluctance shared by most of the people in this country. Americans see foreign aid dollars being spent, yet population, one of the biggest problems, is the one least addressed. We have seen it in our own hemisphere and we see it in other continents around the world.

It has to be a major issue we face up to. We can't let politics back home bring that to a screeching halt because there are not enough resources throughout Africa to feed everybody there. The population pressures will overrun those resources in a number of major areas. We see the desertification of parts of the continent, and you have to ask yourself if maybe whole countries will be uninhabitable in a decade.

But somewhere you have to keep the balance both of the population and of our ability to provide the food and everything else. You can't just eliminate resources, whether it is trees, grasses or anything else.

But that is easy to say back here looking at charts. If you are parents of children that are literally starving in front of you and somebody says you can't cut down those trees and you can't kill those animals and you can't eat the seed corn because it would grow food 3 years from now and you have a child that can die in 3 days, you know, what do you do?

Mr. **Bollinger.** Let me assure you that we very much share your views on this matter, and I think there is absolutely no lack of understanding on the part of our mission directors in the field as to the importance that we at senior levels in Washington place on the carrying out of very sound population and family planning programs in African countries.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy.** Well, I have some other questions we will submit for the record.

I appreciate your coming up today and, as you look back over this transcript, if there are some things that you missed that you want to add in, feel free to do that.

I also apologize again for having to move this thing around, but somehow we muddled through the other issues. I appreciate it. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

IMET

CHAIRMAN LEAHY: Ms. Rosenberg, lets talk about IMET for a moment. How do you justify paying for training of military officers from countries like Cape Verde, a tiny island nation off the coast of Africa--what is the military threat to Cape Verde?

MS. ROSENBERG: The IMET program is not a program for training military officers against a specific threat. In fact, in answer to your specific question, there is no military threat to Cape Verde.

The IMET program for Cape Verde ($100,000 for FY90) is being requested to train up to six officers in basic management and in coast guard general tactics and procedures.

The question however goes to the heart of the philosophy of the IMET program. This training - which is provided by the United States in the United States - is to train foreign officers and NCOs in basic military technical and management skills. The program does not include any training for actual operations or specific tactics. The various courses concentrate on professionalism in an effort to help foreign governments - primarily Third World governments - professionalize their forces.

IMET is also aimed at instilling human rights values in the student officers. The training exposes the IMET students to the United States and its values as the training is conducted here in the US. It also teaches English to those who are not native English speakers.

In sum, the purpose of IMET is to teach professionalism, human rights values, sound judgement, and military management skills; it is not designed to teach specific operational tactics or combat procedures against a specific threat.

CHAIRMAN LEAHY: Why give IMET to Liberia, an impoverished country that has never fought a war and which is ruled by a brutal dictator? What do the Liberian people think of us, when we support a government and military that is denying them their basic rights?

MS. ROSENBERG: Our IMET program is designed to foster professionalism in the armed forces and provide us influence within the military, which remains a key force within the Liberian political context. IMET courses provide the Liberian officer corps with an example of discipline and professional organization, in addition to technical expertise. Through IMET we also encourage the Liberian military to engage in civic action-type projects that are of benefit to the Liberian populace as a whole.

CHAIRMAN LEAHY: What about Benin, where according to your 1988 report on human rights, the government is a one-party state which came to power in a military coup, and the President declared it to be a Marxist-Leninist state. You reported "significant human rights problems in Benin" in 1988. Why give aid to the army, when according to your own report it is responsible for serious abuses of human rights? Do we want to be identified with those abuses?

MS. ROSENBERG: The United States is not identified with human rights abuses in Benin. On the contrary, we have been Benin's strongest critic on this score both publicly through our human rights report and privately in numerous meetings with the President, cabinet ministers, and members of the Politburo.

Our access to the military (7 of 15 cabinet members are military officers) is crucial in making our points, whether they concern economic reform, Libyan terrorism, or the importance of human rights. We have had notable successes in all of these areas: On human rights, some prisoners on whose behalf we have pleaded have been released, and we recently obtained detailed information on political detainees. Without access and information, we cannot influence positive movement in ending human rights abuses.

Our military aid to Benin ($75,000 for training under IMET) is small but helps give us the access we need. We are able to send three to four students a year to the U.S. where they receive formal training to make them more professional military officers and, equally important, ample exposure to a country in which the rule of law and the rights of individuals are respected.

HUMAN RIGHTS

CHAIRMAN LEAHY: You mention that one of our goals is to strengthen human rights in all African countries. Your Congressional Presentation Document justifies military aid to Zaire because it "has been a staunch supporter of US and Western policies." Yet Zaire's military dictator, who for 25 years has repressed all political dissent and amassed a personal fortune, clearly has not supported democracy.

How is this consistent with supporting democracy and human rights? Are we going to support dictators when it suits us? Isn't this double standard why Americans don't support foreign aid?

MS. ROSENBERG: At independence, the former Belgian Congo was given a democratic structure, but lacking preparation and traditions, the structure broke down almost immediately and the country descended into administrative chaos and civil war. Order was gradually restored in part through the efforts of Mobutu, who took control as chief of state in 1965. Zaire now has a one party government, as do most other African countries, and its current political system is built around the person of a strong leader. President Mobutu appears to have firm control over his country's political structure.

This is certainly not the sort of system we would choose for ourselves and its defects are obvious. While we are not in a position to impose our own conception of representative democracy on African countries,we do discuss our concern about these issues with the GOZ frequently. Despite the personalization of the regime, Zaire is not a monolithic dictatorship and political dissent is tolerated within limits.

A vast country with long unguarded borders, Zaire has legitimate defense requirements and a special need for mobility. Our military assistance program in recent years has essentially been limited to maintenance of vehicles and several C-130 transport aircraft. The principal justification for U.S.

military aid is our appreciation for Zaire's importance in the stability of central and southern Africa, its efforts in support of common foreign policy objectives, and the threat which neighbors pose to Zaire, in part because of its support of those common objectives. Zaire's armed forces do not represent a threat to the security of its neighbors.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

ANGOLA: UNAVEM

SENATOR DECONCINI: When asked how he could tell if the withdrawal of Cuban troops was complete, General Ferreira Gomes, the head of the U.N. mission in Angola, responded, "When they (Cubans and the MPLA) tell us there are no more troops, we will tell the United Nations that they have all gone...We will trust the information given to us by both countries." What confidence can we have in UNAVEM under the leadership of this man? Given this blatant bias, what can the United States do independently to assure efficient verification and monitoring?

MS. ROSENBERG: General Ferreira made his remarks at the beginning of his tenure as UNAVEM head in early January. As we noted at the time, his remarks caused us concern, and we took steps to insure that verification and monitoring of Cuban troop withdrawal would be done in a thorough, professional manner. It is both our view and that of the other permanent members of the Security Council, as well as South Africa, that UNAVEM is now operating in this fashion. UNAVEM is maintaining a permanent presence at ports and airfields used for the departure of Cuban troops and the arrival of rotating troops. UNAVEM physically counts in and out all Cuban troops, as well as civilians and transit passengers, in order to have accurate figures on the precise net withdrawal. UNAVEM also has, and is using, freedom of movement to carry out its mission, with provisions in place for challenge inspections of areas in which Cuban troops should not be present in accordance with the withdrawal agreement. All evidence, including our independent verification, indicates UNAVEM is now doing a credible job, and that Cuban troop withdrawal is proceeding apace, even through the recent altercations in northern Namibia.

UN PEACEKEEPING IN NAMIBIA

SENATOR DECONCINI: Where were the U.N. peacekeeping troops when the border attacks took place this weekend between SWAPO and the South Africans? Is the U.N. currently in place to help curtail and prevent further killings? If we do not have sufficient numbers in Namibia, what does this say about our numbers in Angola should problems occur?

MS. ROSENBERG: On April 1, UNTAG forces were not deployed in northern Namibia, largely because the delay in authorizing the Secretary-General's plan and funding the operation had put it three to four weeks behind schedule. Cross-border infiltration on the scale which occurred was not anticipated. Border incidents had virtually ceased since the previous September. Both South African and SWAPO leaders had formally accepted the terms of a ceasefire called by the

Secretary-General and the terms of the UN plan and settlement agreements, calling for restriction of SWAPO to base in Angola, above the 16th parallel. In the aftermath of the infiltration and attacks, an accelerated schedule for transport to Namibia and deployment of both troops and, equally important, vehicles and equipment was begun. UNTAG is now virtually up to full strength, with the exception of mine-resistant vehicles which are still being procured. In addition, UNTAG monitors have been deployed to Angola to work with Angolan and Cuban forces to ensure SWAPO movement north of the 16th parallel and confinement to base there. These deployments appear to be adequate to perform the mission assigned to UNTAG. I would note, for example, that following a recent (and unconfirmed) report from the South Africans that SWAPO was planning a renewed incursion, UNTAG immediately undertook intensified monitoring and patrolling on both sides of the border. No incursion took place.

INCREMENTAL FUNDING FOR PEACEKEEPING BUDGET

SENATOR DECONCINI: Would the Administration support incremental funding of the peacekeeping budget to maintain influence over the process and serve as leverage against violations by the Cubans or the South Africans of the withdrawal schedule? What real options does the Administration have in the event of violations of this agreement?

MS. ROSENBERG: We object on principle to imposition of any conditions that would compromise our ability to support UN activities in implementation of a diplomatic settlement of which we were the principle architect and a prime beneficiary. Moreover, we do not believe that "incremental funding" of the peacekeeping budget will enable us to maintain influence over the process or serve as leverage against violations of the withdrawal schedule by Cuba or South Africa. To the contrary, it would only hinder the UN's ability to monitor their compliance but would have little deterrent effect on the parties themselves.

Observance of those agreements depends on the perceptions of mutual self-interest on the part of all the parties that induced them to enter into the agreements in the first place. We do not see that those perceptions have changed in any way. To the contrary, we note with satisfaction Cuba's continuing, uninterrupted withdrawal of its troops from Angola and South Africa's adherence to the 435 timetable, despite the disruption in Namibia caused by SWAPO's illegal armed incursion, which could have served as a pretext for either or both parties to renege on their commitments. While we, of course, remain cautious in our dealings with Cuba and Angola, we believe that placing conditions on payment of our peacekeeping assessment for UNTAG would cast unhelpful and unwarranted doubt on the U.S. commitment to support implementation of UNSC Resolution 435, with no offsetting gain to our ability to influence the course of events in southwestern Africa.

ANGOLA: CUBAN NUMBERS

SENATOR DECONCINI: It has been reported that there are upwards of 22,000 Cuban civilians in Angola and 25,000 Cubans who have assumed Angolan citizenship. Is it your understanding that the term "total withdrawal" includes these Cubans? What is the U.S. prepared to do to ensure that the withdrawal is indeed total?

MS. ROSENBERG: We have no evidence to substantiate reports that large numbers of Cuban civilians are present in Angola, or assuming Angolan nationality. Our definition of total withdrawal is in reference to the Cuban military contingent in Angola. We are using all means at our disposal to ensure that the withdrawal proceeds in accordance with the December 22 agreements.

ANGOLA: SUPPORT FOR NATIONAL RECONCILIATION

SENATOR DECONCINI: Last year, 51 Senators sent a letter to former President Reagan urging him to continue assisting UNITA until genuine national reconciliation is achieved. President Bush has made public his commitment that aid will be continued until this occurs. What is the administration doing to achieve this goal? Will it assume leadership among our allies and other African nations to pressure the MPLA to negotiate with UNITA?

MS. ROSENBERG: This administration is actively supporting all efforts to achieve national reconciliation in Angola. We are in regular contact with the parties to the conflict, interested African nations, and others who may have a role to play in promoting peace inside Angola. National reconciliation in Angola remains one of the highest foreign policy priorities of this administration.

QUESTION SUBMITTED BY SENATOR BARBARA A. MIKULSKI

ZAIRE: PRESIDENT MOBUTU'S WEALTH

SENATOR MIKULSKI: President Mobutu of Zaire is reported to have an estimated $5 billion in his personal Swiss bank accounts. Granted that Zaire is rich in critical minerals and that Mobutu has been cooperative in our policy towards UNITA and other African states, but how can you justify requesting $49 million in aid this year to Zaire when Mobutu has 100 times that amount safely set aside in Switzerland.

MS. ROSENBERG: We have seen various estimates of President Mobutu's personal wealth reported in the press, typically $5 billion or more, but have never seen any basis for such estimates, which we find implausible. Our aid programs do not consist of cash transfers; the bulk of our aid request represents the cost of operating programs (largely PVO-run) which promote economic development and improve the health and living standard of the Zairian people as a whole.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

ARMS TRANSFER

SENATOR D'AMATO: Have we lodged a protest with the Soviets concerning the sale of SU-24's to Libya? If not, why not? What, if any, respnse have we received?

MS. ROSENBERG: The African Affairs Bureau which I represent does not have jurisdiction over U.S. relationships with the Soviet Union or Libya. I have checked with both the European and Canadian Affairs and the Near Eastern and South Asian Affairs Bureaus which respectively cover those countries. They informed me that the Secretary has personally conveyed his concern to the Soviets over this sale and raised the matter when he met with Soviet leaders in Moscow May 10-11. Additionally, we have aired our concerns publicly. The Soviet response so far has not been satisfactory.

SENATOR D'AMATO: What motivated this sale? What does it tell us about Soviet intentions in the Middle East and elsewhere? Is Gorbachev two-faced or is he losing his grip?

MS. ROSENBERG: Only the Soviets know what motivated them to supply this sophisticated long-range bomber to such an irresponsible regime. It certainly has raised questions in our minds about the extent of Gorbachev's "new thinking" in the Middle East and more generally.

We intend to continue making it clear to Moscow that its desire to play a more active role in the Middle East and other regions will require a greater sense of responsibility and prudence that this arms tranfer to Libya has demonstrated.

NAMIBIA

SENATOR D'AMATO: What success are U.N. forces having in forcing SWAPO guerrillas out of Namibia and above the 16th parallel in Angola? South African troops were the decisive factor in halting SWAPO's drive south. In the future, will the U.N. peacekeeping mission be able to prevent incursions or will we have to depend upon South African intervention?

MS. ROSENBERG: According to our information, SWAPO forces in Angola are either north of the 16th parallel or rapidly being moved there. UNTAG units are present in southern Angola and, in cooperation with Angolan and Cuban forces, are monitoring the movement northwards and the confinement to bases. It is our judgment that UNTAG, now deployed according to the Secretary-General's plan, will be capable of monitoring the border and working with all parties to the agreements to ensure continued tranquility and progress toward Namibian independence.

ANGOLA

SENATOR D'AMATO: By what means will we verify the withdrawal of Cuban troops from Angola? How confident are you that this verification regime will accurately monitor the withdrawal?

MS. ROSENBERG: It is both our view and that of the other permanent members of the Security Council, as well as South Africa, that the U.N. verification regime set up to monitor total Cuban troop withdrawal from Angola (UNAVEM) is doing a thorough and professional job. UNAVEM is maintaining a permanent presence at ports and airfields used for the departure of Cuban troops and the arrival of rotating troops. UNAVEM physically counts in and out all Cuban troops, as well as civilians and transit passengers, in order to have accurate figures on the precise net withdrawal. UNAVEM also has, and is using, freedom of movement to carry out its mission, with provisions in place for challenge inspections of areas in which Cuban troops should not be present in accordance with the withdrawal agreement. All evidence, including our independent verification, indicates UNAVEM is doing a credible job, and that Cuban troop withdrawal is proceeding apace, even through the recent altercations in northern Namibia.

MOZAMBIQUE

SENATOR D'AMATO: The Administration intends to release funds to enable Mozambique to improve maintenance on its rail network. RENAMO, meanwhile, is ripping up track wherever possible. What gains can we really expect from the expenditure of these funds as long as RENAMO operates freely?

MS. ROSENBERG: While attacks by RENAMO have closed portions of the Mozambican rail network and hampered rehabilitation, the amount of traffic carried by the major Beira rail line has increased significantly over the past two years and repair work is continuing on the other two major corridors, the Nacala and Limpopo lines--an indication that rehabilitation of the Mozambican rail system can produce significant benefits despite existing security problems.

We recognize that provision of transport assistance to Mozambique is risky. However, assistance in this sector is essential to regional development since rail networks through Mozambique are the most efficient means of shipping vital goods to and from many of Southern Africa's landlocked countries.

SUBCOMMITTEE RECESS

Senator **Leahy**. This subcommittee will stand in recess until 2 p.m., on Tuesday, April 18. At that time we will receive testimony from the Honorable Nicholas Brady, Secretary of the Treasury.

[Whereupon, at 12:22 p.m., Monday, April 17, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, April 18.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, MAY 2, 1989

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Lautenberg, Mikulski, Kasten, Hatfield, and Specter.

DEPARTMENT OF STATE

Bureau for Refugee Programs

STATEMENT OF AMBASSADOR JONATHAN MOORE, DIRECTOR

ACCOMPANIED BY:
- LINAS KOJELIS, DEPUTY ASSISTANT SECRETARY FOR REFUGEE ADMISSIONS
- KENNETH BLEAKLEY, DEPUTY ASSISTANT SECRETARY FOR REFUGEE ASSISTANCE
- ROZANNE OLIVER, DIRECTOR OF PROGRAM BUDGET

OPENING REMARKS

Senator **Leahy**. Good afternoon, Ambassador Moore. We want to welcome you to the Foreign Operations Subcommittee. This afternoon we will consider fiscal year 1990 funding for the refugees and migration program. You and I have discussed this at some length in my office a while ago.

FISCAL YEAR 1989 SUPPLEMENTAL AND FISCAL YEAR 1990 BUDGET REQUEST

I am particulary interested in your request in the fiscal year 1989 supplemental for $100 million for migration and refugees.

The subcommittee will want to hear your explanation for the administration's patently inadequate migration and refugee request for fiscal year 1990.

We have a situation which does not make an awful lot of sense. You are asking for over $471 million including the supplemental for 1989, but for the exact same purposes you are asking for $100 million less, $370 million for fiscal year 1990. Yet, the refugee requirements next year are going to be at least as great as this year, if not larger.

So what worries me is that we have a situation that appears on the surface to reflect a pattern of mismanagement, blundering, and misjudgments displayed by the executive branch over the last year concerning the growing refugee crisis.

The outgoing adminstration sort of applied band-aids. They ducked the tough decisions that have to be made about the whole future of the U.S. policy on refugees. The new administration now has to pull the band-aids off to show what is underneath.

SOVIET REFUGEES

Last October the administration suddenly reversed two decades of United States policy and practice and began to deny refugee status to Soviet refugees, without any consultation with the Congress, no preparation, no warning

Now, there were a lot of great speeches made within the administration about the triumph of democracy and people began to stream out of the Soviet Union. They indicated that they wanted to go to the United States. At the same time, while the administration was giving the speeches which do not cost anything, they were denying refugee status coupled with huge outflows of refugees from the Soviet Union ever since President Gorbachev relaxed emigration controls.

As a result, we have a large and growing refugee population in Rome and Moscow. Eric Newsom and Jim Bond have been over and looked at that, and I am going to go over later this month.

So how is the adminstration going to overcome this poison legacy of the past administration? What is United States policy now regarding persons fleeing the Soviet Union? Are they refugees or not?

INDOCHINESE REFUGEES

At the same time, we see the whole international cooperative effort to respond in a humane way to the outpouring of refugees from Indochina on the verge of collapse. Now that is a political and humanitarian problem of huge magnitude.

What is the new administration going to do to restore the multinational effort to provide asylum, humanitarian treatment, and resettlement of these refugees from more violence, inhumane conditions, and extreme economic deprivation?

CENTRAL AMERICAN REFUGEES

What are they going to do about the tidal waves of refugees entering our borders from Central America? Can we be assured that they will receive the humane equitable treatment?

What about the reports of detention camps where whole families are being held for indefinite periods pending processing or deportation?

I mean, I could go on and on and on. Again, like many of the other briefings I have gotten on the issues before this subcommittee, there is no good news. I would yield to Senator Hatfield, who has been looking at these issues a lot longer than I and with a great deal more understanding.

FURTHER OPENING STATEMENTS

Senator **Hatfield**. Mr. Chairman, thank you. I will reserve my comments for questioning.

Senator **Leahy**. Senator Mikulski.

Senator **Mikulski**. Mr. Chairman, I just think we ought to move on to the questions. I think you have, however, stated a lot of our concerns.

Senator **Leahy**. Before you start, Mr. Ambassador, Senator Kasten, the ranking member of the committee and distinguished former chairman of this committee, is here, and I would yield to him.

Senator **Kasten**. Mr. Chairman, thank you.

I think everyone is aware of the interest all of us have had on this set of issues led by Senator Hatfield. We have a continuing set of problems as I see it, particularly building up in Vienna and Rome and the whole system with regard to the whole Soviet emigration.

I also have some questions in terms of management issues here with regard to the two positions that you now hold. We have brought that question up a couple of times, and this might be a good time to explore that.

Mr. Chairman, I would rather not take the time of the committee to go through an opening statement. I would simply ask that we continue with questions.

PREPARED STATEMENT OF SENATOR D'AMATO

Senator **Leahy**. Thank you, Senator Kasten. The subcommittee has received a statement from Senator D'Amato which he would like inserted in the record.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE M. D'AMATO

Thank you, Mr. Chairman. I want to welcome Ambassador Moore. I appreciate your appearing here this morning to testify.

I have been very concerned in the last few months with the logjam that has developed in the area of Soviet emigration. It is with astonishment that I have watched a situation unfold where Soviet exit visa applications are actually outrunning the west's ability to absorb Soviet refugees.

I was very pleased to see that your statement, Ambassador Moore, includes a thorough discussion of the issue as it pertains to both the supplemental and the fiscal year 1990 request. I welcome the initiatives undertaken to expand and expedite Soviet admissions, and I look forward to working closely with you to further improve the program.

I also noted with interest your clarification of concerns that the quota for Soviet refugees was being expanded at the expense of southeast Asian refugees. This country is rich enough to welcome all who are fleeing oppression. We as a Nation should never be forced into the position of picking and choosing which refugees are allowed to enter the United States.

Thank you, Mr. Chairman.

INTRODUCTION OF ASSOCIATES

Senator **Leahy**. So now, Mr. Ambassador, having given you this great friendly eager greeting, it is over to you to answer all of the questions, defend all past wrongs, and indicate future rights.

Ambassador **Moore**. Thank you for that sympathy, Senator.

If I might take just a moment, may I introduce my colleagues: on my right, Mr. Kenneth Bleakley, who is Deputy Assistant Secretary for International Assistance; Mr. Linas Kojelis, who is Deputy Assistant Secretary for Admissions in the Refugee Programs Bureau; and Rozanne Oliver on my left, who is head of our Budget Office.

I have a prepared statement, Mr. Chairman, which I would like to put in the record in its entirety, but I am going to try to cut it down. I do want to present it in a shortened version, however, both to adequately present the administration's position and to try and begin to answer, although not by any means completely, some of the questions which you had in your opening statement.

If I may proceed, sir.

Senator **Leahy**. Of course.

BUDGET REQUEST

Ambassador **Moore**. Mr. Chairman, the Department of State is requesting $370 million for the fiscal year 1990 migration and refugee assistance appropriation and $10 million for the emergency refugee and migration assistance appropriation. For fiscal year 1989 we are requesting urgent supplemental appropriations of $100 million for the MRA.

The refugee is facing great challenges and opportunities. This year on the one hand, program needs for admissions and assistance are at their greatest levels in recent years, a challenge indeed at a time when on the other hand the administration and the Congress are focusing on limiting Government expenditures.

The budget requests that I have here today reflect the concern for balancing the need to address humanitarian and other foreign policy objectives with their requirement to restrain spending.

FISCAL YEAR 1989 SUPPLEMENTAL

With regard to the fiscal year 1989 supplemental appropriations request, since the beginning of this fiscal year there has been a continuing increase in the number of Soviets receiving permission to leave the Soviet Union and applying for refugee admission into the United States both in Moscow and in Western Europe.

The Department currently has fiscal year 1989 funding for 19,000 Soviet admissions plus funding for 6,500 East Europeans. The administration is requesting supplemental appropriations of $100 million for the fiscal year 1989 migration and refugee assistance appropriation.

The admissions program request is $85 million, which will provide funding for an additional 28,500 refugee admissions in fiscal year 1989, including 24,500 Soviet admissions from Rome and Moscow and 4,000 admissions numbers from other regions.

In parallel to our request for additional funds, Mr. Chairman, the administration is already consulting in emergency consultations with the Congress to raise the admission ceilings by 22,500 numbers to a new level of 116,500. This increase would bring the revised fiscal year 1989 ceiling for the Soviet-Eastern European region to 50,000, of which 43,500 numbers would be for Soviet refugees.

Precise projections for actual admissions are difficult, given the many variables involved. These include the number of new arrivals and applications. The time periods now needed to schedule and complete steps such as voluntary agency presentation of cases, the INS interviews, voluntary agency resettlement sponsorships and transportation, and the rates of INS approvals.

At this point in the year our best estimate is that about 35,500 refugees will be admitted from Rome, and about 8,000 will be admitted from Moscow by the end of the fiscal year.

We would encourage the Congress to give the supplemental request its attention on an urgent basis.

We are now continuing to admit Soviets from Western Europe thanks to the generous agreement of voluntary agencies, especially the Hebrew Immigrant Aid Society, to fund up to 6,000 persons for whom we currently have no appropriations. A total of 5,000 Soviets may be admitted under this arrangement.

However, the numbers of Soviet admission slots for this program will be exhausted sometime in June, and support from the migration and refugee assistance appropriations for the ongoing care and maintenance expenses for Soviets being processed in Rome will be exhausted by the end of next week.

We will have to depend on the voluntary agencies to provide the cost of care and maintenance until supplemental funding is available.

The committee will note that the supplemental request for admissions, $85 million for 28,500 numbers, represents higher cost for processing and admitting Soviets than had been estimated in the past. One reason for this increase is that longer periods of time are required for processing because the capacity of the processing system, government and private, with all the variables that I iterated a moment ago is exceeded; therefore, care and maintenance requirements are above the previously budgeted 30-day period.

In addition, the Department provides care and maintenance for all applicants in Western Europe, including those who are offered parole rather than refugee admission.

In December of this fiscal year, Mr. Chairman, the administration reallocated 7,000 admissions numbers from other regions to the Soviet programs as an interim measure. The December reallocation was a difficult management decision to make, but given the timing and the urgency of the needs it was a logical step to take in order to avoid an even larger buildup of the Soviet caseload in Europe than we now have.

Moreover, it reflected the existence of some numbers which will not be used this year because of lack of willingness by the Vietnamese to allow former reeducation center detainees into the Orderly Departure Program.

Without these 7,000 numbers reallocated last December, the Soviet admissions program would have already closed down. The supplemental request and our emergency consultations proposal aims to restore and fully fund 4,000 of those numbers. We are not restoring 3,000 East Asia Orderly Departure Program numbers since we cannot now realistically hope to bring that many more refugees out of Vietnam this year.

There has been concern, obviously, about the Department of Justice's reaffirmation last year that the Refugee Act of 1980 requires refugee applications to be adjudicated on a case-by-case basis through individual interviews and based on uniform worldwide standards.

The Department of State supports the policy of the Attorney General and believes that the INS should apply the definition contained in the Refugee Act properly and consistently to all refugee applicants, including Soviet citizens. This definition is that a refugee is a person who has been persecuted or who has a well-founded fear of persecution on account of race, religion, nationality, membership in a particular social group or political opinion.

We share the underlying objective behind this concern of ensuring our Nation's ability to continue generous resettlement of emigrants from the Soviet Union and Vietnam. We favor special consideration of certain groups which are targets of persecution within the parameters of the worldwide standards.

Authority now exists which permits the establishment of categories of applicants who share common characteristics that identify them as targets of persecution in a given country.

In our overall review of Soviet refugee policy, our overall study which the Secretary of State mentioned before this subcommittee, Mr. Chairman, we are now looking at whether such categories are feasible and could be helpful, but we would not favor legislation that would confer automatic refugee eligibility on a particular group or groups of applicants.

The administration has recently submitted to the Congress new legislation to give the United States flexibility to admit persons for whom we have special humanitarian concern who do not qualify for admission as refugees or regular immigrants and provide them the opportunity to become permanent residents. This special immigrant legislation primarily addresses key issues involved in the current Soviet situation but would also be applicable to other regions.

Also included in the fiscal year 1989 supplemental request is an additional $15 million for refugee assistance needs to fund new high priority requirements in East Asia and Africa. For East Asia we are requesting $3.5 million to respond to increases in camp populations due to boat arrivals, for protection and other needs of the Khmer population in Thailand.

For Africa we are requesting $11.5 million to respond to needs of 800,000 refugees who arrived during 1988 and the International Committee for the Red Cross [ICRC] needs for persons affected by conflicts, especially in the horn and in Southern Africa.

Senator **Leahy**. You are asking for about $14 per person?

Ambassador **Moore**. I have not done that arithmetic. It varies significantly region by region, Senator. In fact, we just had an exchange of correspondence with Senator Simpson on this subject of the relative cost of assisting refugees and of admitting refugees to the United States, and I might make that available to you if you would be interested.

[The letter follows:]

LETTER FROM AMBASSADOR JONATHAN MOORE

APRIL 28, 1989.

Hon. ALAN K. SIMPSON,
U.S. Senate, Washington, DC.

DEAR SENATOR SIMPSON: Thank you for your letter of April 18 acknowledging receipt of the Administration's proposal to increase the fiscal year 1989 admissions ceiling for Soviets by 22,500 through the emergency consultations process, and requesting comparative cost data for refugee resettlement in this country and for international assistance to refugees abroad.

I am in full agreement with your concern regarding the impact of our resettlement efforts on the level of humanitarian assistance available for refugees abroad. Achieving an equitable relationship between the two has been one of the most consuming difficulties I have faced in dealing with the overall refugee budgets. In principle, of course, there should not be any either-or competition between refugee assistance and refugee admissions funding. Ideally, we should be able to assess the needs and the appropriate U.S. response to each area separately, on its own merits, and fund each program accordingly. Yet we acknowledge the reality that there is an inherent competition among all federal programs as part of our national deficit-fighting strategy.

You have set us a difficult task in asking "how many people could be provided for in a refugee camp abroad for a year for what it costs the United States to resettle an average refugee in the United States," due to the inherent complexity and the great number of variables in this vast program. The danger of projecting distortions is very high and must be guarded against. There are various methodologies that could be applied in making the comparison of the costs of resettling a refugee in this country and the costs of maintaining a refugee in a camp abroad, all of which have drawbacks. We hope that the following approach, although imperfect, is responsive to your request and will not be misleading.

As you know, costs for the resettlement of a refugee in the United States will vary depending on the region from which a refugee is being resettled and whether or not the domestic costs are included. For the purposes of this discussion, however, we will use for an "average refugee" the average fiscal year 1988 expenditure by the Bureau for Refugee Programs related to bringing a refugee to this country, $1,600, and the average Health and Human Services cost of providing benefits to a refugee, $2,500. The combined average cost to the United States would be $4,100 per refugee resettled in this country. The HHS cost is repeated during the refugee's second year in the United States, and the cost of resettling a Soviet in this country is somewhat higher than this average owing to the cost of transit stays in Europe and the cost of the matching grant program.

We cannot apply the same methodology to obtain the average cost of providing for a refugee in a camp abroad since total costs are not borne by the U.S. alone. The United States pays 100 percent of the refugee resettlement costs indicated above but only some 21 percent of overall UNHCR expenditures for all assistance provided to refugees abroad. Also, as in resettlement, the costs of providing for a refugee in a camp abroad differ widely—in needs, camp and country conditions, and various program components for which assistance funds are used. Accordingly, we have selected three major first asylum countries for which basic assistance costs supported by the international donor community can be easily identified and are somewhat representative. These assistance costs, as shown below, cover basic care and maintenance, as cited in the United Nations High Commissioner for Refugees' Annual Program documentation, and food estimates representing surplus food donated to the World Food Program.

[Dollars in millions]

Country	1988 UNHCR care and maintenance cost	1988 World Food Program	Estimated number of refugees assisted	Average cost/year
Pakistan	$48.6	$112.1	3,000,000	$53.56
Malawi	22.8	30.0	600,000	88.00
Thailand	20.9		119,000	175.63

It should be noted that in addition to the costs of providing care and maintenance and food, there are other program components funded by government contributions, as well as the costs borne by the host countries and private voluntary organizations. One also must keep in mind that care and maintenance in a camp situation is not a one-time requirement, but short of a more permanent solution, it is recurring. The pursuit of durable solutions for refugees in camps also costs additional funds, but could end the care and maintenance cycle.

Based on the above estimates, calculations and caveats, and for illustrative purposes only, the average U.S. cost of resettling one refugee in the United States of $4,100 could cover the particular care and maintenance and food costs listed above for one year for 76 refugees in Pakistan, 46 refugees in Africa, or 23 refugees in Thailand.

Sincerely,

JONATHAN MOORE.

FISCAL YEAR 1990 BUDGET REQUEST

Ambassador MOORE. With regard to the fiscal year 1990 request, first of all, for the refugee admissions program for fiscal year 1990 the Department is requesting $156.5 million for refugee admissions, which is estimated to support admissions of about 84,000 refugees, the same level of admissions funded in the current fiscal year 1989 appropriations.

The actual admission ceilings for fiscal year 1990 will be determined by the President in the late summer after consultations with the Judiciary Committees as required by the Refugee Act of 1980.

The fiscal year 1990 budget estimates admissions of 22,500 East Europeans and Soviets. It has been noted properly that this estimate is low in light of the current situation.

As I mentioned, Mr. Chairman, the Department has initiated a study of the long-term consequences of these developments. The administration will be sharing its findings with the Congress, including options to address these consequences. Obviously these findings will have to include the budgetary impact of our policy directions for fiscal year 1990.

Turning to admissions for other regions in our fiscal year 1990 request, for East Asia the budget provides for a total of 49,500 admissions, 25,000 from first asylum and 24,500 orderly departures from Vietnam, including 13,000 Amerasians and their family members.

The request also assumes that levels of admissions from the Near East, South Asia, the Western Hemisphere and from Africa will be about the same as the fiscal year 1989 consultations levels.

With regard to refugee assistance programs, the Department is requesting $175.2 million for refugee assistance programs, an increase of about $1.9 million from the fiscal year 1989 level. This request includes $25.5 million for East Asia, $58.2 million for Africa,

$80.3 million for the Near East and South Asia, and $11.2 million for the Western Hemisphere.

Concerning East Asia, there will be an international conference on Indochinese refugees this June in Geneva. The goal of these efforts is a comprehensive and revitalized approach to deal with Indochinese asylum seekers spurred by the largest outflow of Vietnamese boat people since the early 1980's.

Strong progress with U.S. leadership was accomplished at the preparatory conference in Kuala Lumpur and in other multilateral efforts toward acceptance of an integrated, mutually reinforcing strategy of balanced national commitments. Its components include the preservation of access to first asylum, our foremost concern; screening procedures to determine refugee status; assurances of third country resettlement for bonafide refugees; resolution of the longstayer population; plans for voluntary repatriation to the country of origin; and strengthened orderly departure programs from Vietnam.

Its commitments will be undertaken together jointly by source countries such as Vietnam, by countries of refuge such as Thailand and Malaysia and by resettlement in donor countries such as the United States, Canada, Australia, Japan, and other European nations.

In Africa we are heartened by our major foreign policy success in Southern Africa that promises to lead to repatriation of Namibian refugees and independence. At the same time we are preoccupied by the growing numbers of refugees and displaced persons and with the seeming intransigence of the conflicts that generate these refugee situations. The number of African refugees has reached 4 million, up from 3 million at the end of 1987.

In the Near East and South Asia we are concerned with two major issues. First, the Afghan refugee population remains the largest single refugee group, more than 3 million persons in Pakistan and 2 million in Iran. The United States hopes that the political and military conditions in Afghanistan will so improve as to allow the repatriation of refugees, although in the immediate term refugees are still arriving in Pakistan.

Second, UNRWA, which provides assistance primarily through education and medical programs for Palestinian refugees in the Middle East, has increased program needs in the West Bank and Gaza, particularly for emergency medical care needed because of the Palestinian uprising and the Israeli response.

In Central America, the current exodus of Nicaraguans to other countries in the region frequently on their way to the United States has added to uprooted populations that now total some 2 million people.

The Central Americans have called on the rest of the world to assist them in addressing the pressures these migrations place on their fragile societies. In response, a U.N. sponsor in the national conference will take place in Guatemala at the end of May.

Finally, and then I will be finished, Mr. Chairman, with regard to emergency refugee migration and assistance, the President recently responded to several increased unforeseen assistance needs by authorizing the use of $17.5 million from the emergency fund. This drawdown included $5 million for the UNHCR appeal for funds to repatriate refugees to Nimibia, $5 million for the ICRC appeal for the horn of Africa, $5 million for the ICRC appeal for Afghan conflict victims, and $2.5 million for the United Nations special coordinator for Afghanistan.

A sum of $23 million in the fund is available only for other Afghan needs through a program of the Agency for International Development. A balance of $12.6 million is currently available for other refugee needs, and we are requesting a $10 million appropriation to replenish the fund for fiscal year 1990.

PREPARED STATEMENT

Mr. Chairman, thank you for this opportunity to present our budget today.

[The statement follows:]

STATEMENT OF AMBASSADOR JONATHAN MOORE

I am pleased to be here today to present the Department of State's refugee program appropriation requests.

Mr. Chairman, the Department of State is requesting $370 million for the FY 1990 Migration and Refugee Assistance Appropriation (MRA), and $10 million for the Emergency Refugee and Migration Assistance Appropriation (ERMA). For FY 1989, we are requesting urgent supplemental appropriations of $100 million for MRA.

The U.S. refugee program is an essential expression of U.S. commitment to humanitarian principles as well as a means of supporting other U.S. foreign policy objectives. Our abiding, bipartisan, international commitment of assistance to refugees and ubiquitous diplomatic advocacy on their behalf projects our highest ideals throughout the world in which we live; and pursues the stability which is in our national interest through the alleviation of persecution, violence and poverty which breed refugees. Through our programs, the Department allows for the admission and resettlement of refugees who are of the greatest concern to the U.S. and provides assistance to 13 million refugees worldwide for life-sustaining support, primarily through contributions to multilateral organizations.

The refugee program is facing great challenges and opportunities this year. On the one hand, program needs for admissions and assistance are at their greatest levels in recent years--a challenge indeed at a time when the Administration and the Congress are focussing on limiting government expenditures. On the other hand, many of these needs have arisen as a direct consequence of our foreign policy successes, and offer the opportunity to begin to resolve long-standing problems that have faced the international community for some time. The budget requests reflect the concern for balancing the need to address humanitarian and other foreign policy objectives with the requirement to restrain spending.

FY 1989 SUPPLEMENTAL APPROPRIATIONS REQUEST

Since the beginning of this fiscal year, there has been a continuing increase in the number of Soviets receiving permission to leave the Soviet Union and applying for refugee admission to the U.S., both in Moscow and in Western Europe. The levels of Soviet applications have greatly surpassed previous estimates, resulting in severe pressure on available resources. The Department currently has FY 1989 funding for 19,000 Soviet admissions, plus funding for 6,500 East Europeans.

The Administration is requesting supplemental appropriations of $100 million for the FY 1989 Migration and Refugee Assistance Appropriation. The primary goal is to provide additional resources for Soviet refugee admissions. We are also requesting some funds for admissions of refugees from other regions and for certain high priority refugee assistance needs.

The admissions program request is $85 million, which would provide funding for an additional 28,500 refugee admissions in FY 1989, including 24,500 Soviet admissions from Rome and Moscow and 4,000 admissions numbers for other regions as follows: 1,000 numbers for East Asia first asylum, 2,500 for the Orderly Departure Program, and 500 for the Near East/South Asia. These 4,000 numbers plus 2,000 in the Soviet/Eastern European region, were included in the October 1988 Presidential Determination which authorized 90,000 federally-funded admissions, although our FY 1989 appropriations were estimated to cover 84,000.

In parallel to our request for additional funds, the Administration is consulting with the Congress to raise the admissions ceilings by 22,500 numbers to a new level of 116,500 (112,500 federally funded plus the 4,000 numbers for the private sector initiative). This increase would bring the revised FY 1989 ceiling for the Soviet/Eastern European region to 50,000, of which 43,500 numbers would be for Soviet refugees. Precise projections for actual admissions are difficult given the many variables involved. These include the numbers of new arrivals and applications; the time periods now needed to schedule and complete steps such as voluntary agency presentation of cases, INS interviews, voluntary agency resettlement sponsorships, and transportation; and the rates of INS approvals. At this point in the year, our best estimate is that about 35,500 refugees will be admitted from Rome and about 8,000 will be admitted from Moscow by the end of the fiscal year.

We would encourage the Congress to give the supplemental request its attention on an urgent basis. We are now continuing to admit Soviets from Western Europe thanks to the generous agreement of voluntary agencies, especially the Hebrew Immigrant Aid Society (HIAS), to fund up to 6,000 persons for whom we currently have no appropriations. A total of 5,000 Soviets may be admitted under this program. However, the numbers of Soviet admissions slots for this program will be exhausted sometime in June.

The Committee will note that the supplemental request for admissions, $85 million for 28,500 numbers, represents higher costs for processing and admitting Soviets than had been estimated in the past. One reason for this increase is that longer periods of time are required for processing because the capacity of the processing system -- government and private -- is exceeded. Therefore, care and maintenance requirements exceed the previously budgeted thirty-day period. In addition, the Department provides care and maintenance for all applicants in Western Europe, including those who are offered parole rather than refugee admission.

While I do not want to dwell on the Soviet admissions issue to the exclusion of other aspects of the refugee program, I would like to outline briefly a number of the issues and concerns which have been raised in connection with the Soviet program.

First, in December of this fiscal year, the Administration reallocated 7,000 admissions numbers from other regions to the Soviet program as an interim measure. The December reallocation was a difficult management decision to make, but given the timing and the urgency of the needs, it was a logical step to take in order to avoid an even larger build-up of the Soviet caseload in Europe than we now have. Moreover, it reflected the existence of some numbers which will not be used this year because of lack of willingness by the Vietnamese to allow former re-education center detainees into the Orderly Departure Program. Without the 7,000 numbers reallocated last December, the Soviet admissions program would have already closed down. The supplemental request and our consultations proposal aims to restore and fully fund 4,000 of those numbers. (We are not restoring 3,000 East Asia Orderly

Departure program numbers since we cannot now realistically hope to bring that many more refugees out of Vietnam this year.)

Second, we have problems of processing capacity in Rome and Moscow, including INS staffing, which we are continuing to address within the Administration in an effort to expedite processing.

Third, there has been concern about the Department of Justice's reaffirmation last August that the Refugee Act of 1980 requires refugee applications to be adjudicated on a case-by-case basis, through individual interviews, and based on uniform, worldwide standards. The Department of State supports the policy of the Attorney General, and believes that the INS should apply the definition contained in the Refugee Act properly and consistently to all refugee applicants, including Soviet citizens. This definition is that a refugee is a person who has been persecuted or has a well-founded fear of persecution, on account of race, religion, nationality, membership in a particular social group, or political opinion.

We share the underlying objective behind this concern of ensuring our nation's ability to continue generous resettlement of emigrants from the Soviet Union and Vietnam. We favor special consideration for certain groups which are targets of persecution, within the parameters of the worldwide standards. Legislation now exists which permits the establishment of categories of applicants who share common characteristics that identify them as targets of persecution in a particular country. In our overall review of Soviet refugee policy, we are looking at whether such categories are necessary or warranted. We would not favor legislation that would confer automatic refugee eligibility on a particular group or groups of applicants.

Fourth, the Administration has recently submitted to the Congress new legislation to give the U.S. flexibility to admit persons who do not qualify for admissions as refugees or regular immigrants, and provide them the opportunity to become permanent residents. This special immigrant legislation primarily addresses key issues involved in the current Soviet situation, but also would be applicable to other regions. We hope that the Congress will give this legislation prompt and serious attention beginning with Judiciary Committee consideration of the legislation.

Also included in the FY 1989 supplemental request is an additional $15 million for refugee assistance needs to fund new, high-priority requirements in East Asia and Africa. For East Asia, we are requesting $3.5 million to respond to increases in camp populations due to boat arrivals, for protection and other needs of the Khmer population in Thailand. For Africa, we are requesting $11.5 million to respond to needs of 800,000 refugees who arrived during 1988 and ICRC needs for persons affected by conflicts, especially in the Horn and in southern Africa.

FY 1990 REQUEST

REFUGEE ADMISSIONS PROGRAM

For FY 1990, the Department is requesting $156.5 million for Refugee Admissions, which is estimated to support admissions of about 84,000 refugees--the same level of admissions funded in the current FY 1989 appropriation. The actual admissions ceilings for FY 1990 will be determined by the President in the late summer after consultations with the Judiciary Committees, as required by the Refugee Act of 1980.

The FY 1990 budget estimates admissions of 22,500 East Europeans and Soviets. It has been noted that this estimate is low in light of the current situation. Clearly, the new, overdue, and most welcome policies of liberalized emigration and relaxation of prohibitions against departure challenge us to review our estimates and our admissions policies in the context of the resource implications they now carry. The Department has initiated a study of the longer-term consequences of these developments. The Administration will be sharing its findings with the Congress including possible options to address these consequences. Obviously, these findings will have to include the budgetary impact of our policy directions for FY 1990.

Turning to admissions for other regions in our FY 1990 request, for East Asia, the FY 1990 budget provides for a total of 49,500 admissions: 25,000 from first asylum; and 24,500 Orderly Departures from Vietnam, including 13,000 Amerasians and their family members. I remain hopeful that the Socialist Republic of Vietnam will resume negotiations on unrestricted access to resettlement programs by former reeducation center detainees and their families in the near future.

The request assumes that levels of admissions from the Near East/South Asia (6,500), the Western Hemisphere (3,500), and Africa (2,000) will be about the same as the FY 1989 consultations levels.

REFUGEE ASSISTANCE PROGRAMS

The Department is requesting $175.2 million for refugee assistance programs, an increase of about $1.9 million from the FY 1989 level. This request includes: $25.5 million for East Asia; $58.2 million for Africa; $80.3 million for the Near East/

South Asia; and $11.2 million for the Western Hemisphere. Most of our contributions are channeled through international organizations including the United Nations High Commissioner for Refugees (UNHCR), the International Committee of the Red Cross (ICRC), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), and the United Nations Border Relief Organization (UNBRO) for Khmer on the Thai-Cambodian border. The Department also supports activities of private voluntary organizations.

A number of developments in regional refugee assistance programs are noteworthy.

Concerning East Asia, there will be an international conference on Indochinese refugees this June in Geneva. The goal of these efforts is a comprehensive and revitalized approach to deal with Indochinese asylum seekers, spurred by the largest outflow of Vietnamese boat people since the early eighties. Strong progress, with U.S. leadership, was accomplished at the Preparatory Conference in Kuala Lumpur and in other multilateral efforts toward acceptance of an integrated, mutually reinforcing strategy of balanced national commitments. Its components include the preservation of access to first asylum -- our foremost concern; screening procedures to determine refugee status; assurances of third-country resettlement for bona fide refugees; resolution of the "longstayer" population; plans for voluntary repatriation to the country of origin; and strengthened orderly departure programs from Vietnam. Its commitments will be undertaken together by source countries such as Vietnam; by countries of refuge such as Thailand and Malaysia; and by resettlement and donor countries such as the U.S., Canada, Australia, Japan, and European nations. Along with new structures and procedures to address the Indochinese refugee program, this comprehensive plan may have resource implications. In addition, movement toward an agreement on Cambodia could require the initiation of international programs to repatriate the 300,000 Khmer in Thailand.

In Africa, we are heartened by our major foreign policy success in southern Africa that promises to lead to repatriation of Namibian refugees and independence. We hope that will create a climate for resolution of other refugee problems in southern Africa. At the same time, we are preoccupied with the growing numbers of refugees and displaced persons and with the seeming intransigence of the conflicts that generate these refugee situations. The number of African refugees has reached 4 million, up from 3 million at the end of 1987. In addition, the ICRC is providing relief to as many as 1 million displaced persons.

In the Near East and South Asia, we are concerned with two major issues. First, the Afghan refugee population remains the largest single refugee group--more than 3 million persons in Pakistan, and 2 million in Iran. Owing to the successful conclusion of an agreement on the Afghan conflict and the Soviet withdrawal, the United States hopes that the political and military conditions in Afghanistan will so improve as to allow the repatriation of refugees, although in the immediate term, refugees are still arriving in Pakistan. Second, UNRWA, which provides assistance primarily through education and medical programs for Palestinian refugees in the Middle East, has increased program needs in the West Bank and Gaza particularly for emergency medical care needed because of the Palestinian uprising and the Israeli response.

In Central America, the current exodus of Nicaraguans to other countries in the region frequently on their way to the

U.S. has added to uprooted populations that now total some 2 million people. Of the total uprooted populations, about 146,00 refugees are receiving material assistance from the UNHCR; a number of displaced persons receive services from the International Committee of the Red Cross. The Central Americans have called on the rest of the world to assist them in addressing the pressures these migrations place on their fragile societies. In response, a UN-sponsored International Conference will take place in Guatemala at the end of May.

OTHER ACTIVITIES

The Department is also requesting $30.3 million for other activities. Of the total, we are requesting $20 million for the Refugees to Israel program for FY 1990. The remaining $10.3 million includes a contribution to the headquarters budget of the International Committee of the Red Cross and the assessed and voluntary contributions to the Intergovernmental Committee for Migration.

ADMINISTRATION

The Department is requesting $8 million for the administrative expenses of the Bureau for Refugee Programs. This includes funding for 107 permanent positions, and related support services.

EMERGENCY REFUGEE AND MIGRATION ASSISTANCE (ERMA)

The President recently responded to several increased, unforeseen assistance needs by authorizing the use of $17.5 million from the Emergency Fund. This drawdown included $5 million for the UNHCR appeal for funds to repatriate refugees to Namibia; $5 million for the ICRC appeal for the

Horn of Africa; $5 million for the ICRC appeal for Afghan conflict victims; and $2.5 million for the U.N. Special Coordinator for Afghanistan. A sum of $23 million in the Fund is available only for other Afghan needs through a program of the Agency for International Development. A balance of $12.6 million is currently available for other refugee needs. We are requesting a $10 million appropriation to replenish the Fund for FY 1990.

Mr. Chairman, thank you for this opportunity to present our budget. I welcome the questions of the subcommittee.

GENERAL QUESTIONING

Senator LEAHY. Thank you, Mr. Ambassador.

I am frustrated by the budget. Incidentally, I should mention that the members of the subcommittee will probably not have a formal markup on this before the time we go to the full committee, and I suspect that Senator Kasten and I will be polling individual members to see what type of representation we can make to the full committee when we take up the emergency supplemental.

OFFSETTING THE SUPPLEMENTAL

Mr. Ambassador, I am frustrated by your request. When the President sent up a supplemental, he had to know that he we would be putting in a politically unacceptable offset to make it revenue neutral.

What he is saying is to find extra money for foreign aid, however defined. We had to take a 1.1-percent across-the-board cut of domestic discretionary programs—most of which have seen a lot of cuts in the past few years—to pay for the things he wanted in the supplemental, including this $100 million for refugees.

Now I do not know exactly how the full committee is going to handle the question of offsets. Maybe there will be something that is going to be politically acceptable, but I know when I have looked at the foreign operations bill in the fiscal year 1989 bill, without breaking earmarks it is almost impossible to come up with the $68.5 million in outlays to offset this supplemental.

But there is no offset to make the supplemental deficit neutral, and offhand I cannot think of one. Let me tell you—and I hope you will pass the word back to the administration—I will not go to the floor of the Senate and ask for a waiver of the Budget Act for this refugee money unless I have in my hand a very clear letter from the administration at the highest level, one that can go into the record and into the file of every single Senator on both sides of the aisle, stating that the administration supports a budget waiver for this purpose, that the refugee crisis constitutes a dire emergency, which is what the 1987 budget summit agreement said was the only justification for a supplemental.

The administration, I think, is going to be in the position of having to increase the deficit to get this money. I think it is as simple as that.

SOVIET REFUGEE CRISIS

Now tell me if you can, how did the administration back into this crisis with the Soviet refugees? Who proposed that INS change its practice of giving refugee status to all Soviet refugees? In other words, who made that decision and when was it made?

Ambassador MOORE. First of all, Mr. Chairman, we will carry your message about the supplemental back to the administration.

I might just add that with all the frustration—and I use the word "frustration" quite properly—that surrounds the problem of dealing with the Soviet emigration into this country, there is a reality that along with some longer-term problems that we have to come to grips with, there are going to be very tough choices to make: With the results of this study that the Secretary mentioned as being undertaken in the State Department; with what we will learn about the impact that it might have on the fiscal year 1990 budget; with what we will learn more about the full volume of admissions that can be contemplated for next year when we go through the consultations process in September; and with all the anguish about the question that you are raising now about how given groups of asylum seekers are processed to be refugees and to be admitted into the United States. All this constitutes a very difficult problem with difficult choices.

I thank you for your attention to the fiscal year 1989 supplemental which you have just mentioned. The issue right in front of us is if we can get some money through the passage of that supplemental appropriations, and if we can get success in our consultations to raise the authorized number of refugees to bring in so we can deal with somewhat over 20,000 more Soviet emigres who will be admitted to the United States this year, that will allow us to manage these very, very difficult problems in the short run so that we can deal successfully without getting into a more chaotic situation than we are now with the longer term issues.

CHANGE IN REFUGEE STATUS

Senator LEAHY. You have a whole lot of refugees who knew what the rules were before, and they quit their jobs and left and suddenly they are out there in Rome and the doors slammed.

So I go back to my question. Who made the decision to change the INS practice of giving refugee status to all Soviet refugees? Who made that decision?

Ambassador MOORE. My understanding, sir, is that the Attorney General of the United States made it, which is consistent with his responsibilities and with his jurisdiction of INS.

Senator LEAHY. When was that decision made?

Ambassador MOORE. It was made in August of last year.

Senator LEAHY. Who recommended that the change be made?

Ambassador **Moore**. I am not sure who recommended it. A number of us talked about it throughout the executive branch.

Senator **Leahy**. Was any consultation made with Congress or any of the various groups that might be affected by this?

Ambassador **Moore**. I do not know if the Justice Department or if the Attorney General had such consultation. I do know that in the consultation process, meaning the setting of the refugee admission ceiling for fiscal year 1989 in September, the Commissioner of INS testified about this decision and its effect on the fiscal year 1989 admissions.

In that sense there was consultation, but prior to the Attorney General making the decision that you refer to, I do not know what kind of consultation there was outside of the executive branch.

BACKLOG IN ROME

Senator **Leahy**. Is $85 million and another 24,500 admissions enough to get us through this year?

Ambassador **Moore**. I believe it is, Mr. Chairman.

Senator **Leahy**. How long would it take to clear the backlog if we had that?

Ambassador **Moore**. If we had that, we could clear the backlog in Rome during the current fiscal year. At least that was the estimate made at the time we put together the numbers for the supplemental appropriation which are consistent with the numbers that the President has requested in emergency consultation for the authorization ceiling.

We would, however, not be bringing down the backlog in Moscow during this fiscal year because there are processing problems, manpower problems, ceiling issues which do not in a short period of time with less than one-half a fiscal year left get solved merely by having more numbers and more dollars in a short period of time. It is going to take longer to solve it.

We feel that with the worldwide standard and individual adjudications and the common definition used all around the world and, internal to that process, special emphasis being put on the groups which can be shown to have been more persistently persecuted combined with, finally my point, more manpower, better trained manpower and better informed INS interviewing officers by virtue of being informed about the country conditions where the asylum seekers whom they are interviewing come from, we can make an adjustment in an ongoing refugee admissions process, which is a good process and which flows from good laws and good procedures but which cannot immediately react to an unpredicted huge injection of more numbers.

OPEN DOOR REFUGEE ADMISSIONS

Senator **Leahy**. Well, can we sustain an open door policy on refugee admissions indefinitely?

Ambassador **Moore**. In that the open door policy means that for people who want to come to this country from the Soviet Union, they will be admitted to come, yes.

If the open door policy is taken to mean open door to all people who want to come in the category of refugees, then that is considerably more doubtful, particularly if one anticipates increased emigration from the Soviet Union in the years to come.

Senator LEAHY. Does that mean we are going to see a decline in the worldwide refugee pool over, say, the next decade?

Ambassador MOORE. Well, we are not going to see a decline in my view, Senator, in the pool of refugees who need assistance and first asylum circumstances and refugee camps and settlements around the world.

Whether we get a decline in the people who want to come to this country to become permanent citizens, who want to be admitted as refugees to come and live in the United States is also difficult to predict.

I am not here before you to say that I see a lessening of needs in either the assistance or the admissions area. It is a matter of how one deals with it. If there is a potential in the world for people in their countries to be treated differently, whether they are treated better or they are treated worse, we have to have a flexible system to deal with that in terms of admissions.

I, therefore, emphasize again that I think that a combination of the Refugee Act of 1980 with its equitable standards for worldwide admissions adjudication combined with real effort, adequate manpower, education, and special attention given to the groups which can demonstrate that they are special targets of persecution is the best way to deal with the shifting asylum seeker numbers and profile over a period of time.

Senator LEAHY. My time is up, but we will have questions for the record, and I may have some more this afternoon.

I hear what you are saying. Now that you have volunteered to serve as a messenger service back to the White House and OMB, when you do go back there you tell them when they send up a budget amendment or supplemental for refugees for next year, send along a plan to find the money to pay for it.

It is fine to set up something and everybody says, gee, we are all in favor of helping refugees. Of course we are. We are all in favor of making our refugee programs work better. Lord knows they can work better than they do right now. Everybody is in favor of that.

Having done that, however, they never say where the money is supposed to come from. So I want to know what other foreign aid programs the administration is prepared to have cut to pay for the next increase in refugee programs.

Senator Kasten.

Senator KASTEN. Mr. Chairman, I would like to yield to the ranking Republican on the Appropriations Committee, and I will take my next round.

Mark, why not go ahead.

Senator HATFIELD. Mr. Chairman, I would like to thank my colleague, the ranking member of the subcommittee, for the courtesy of permitting me to go at this time.

First, Mr. Ambassador, before I share some of the questions and concerns I have, I want to take this opportunity to thank you on behalf of not only this committee but millions of desperate men, women, and children who are the refugees of this world for your service and your commitment. I consider you to be a man of high principle who has performed a very difficult job with great skill, and I wish you well in your future career.

FISCAL YEAR 1990 SHORTFALL

Just to follow up the chairman on one particular point, and I appreciate the chairman's focus on this, as we talk about programs and translate those programs comparing 1989 to 1990, is it your statistic as well as mine that we are in effect talking about a regular program fiscal year 1989 of $365 million as against $370 million for 1990, adding $100 million of the supplemental to 1989, adding another $50 million from the emergency relief programs, and in 1989 that comes to $515.6 million; correct?

For 1990, as we project that we are dealing with a base there of $370 million, up $5 million from 1989? We are talking about $50 million perhaps or $10 million from the emergency relief?

So that in effect we are talking at this moment in time as we prepare the fiscal year 1989 appropriation program of $380 million? Is that a correct figure?

Ambassador **Moore**. Yes; my figures are very close to yours. Yours may be better than mine.

Senator **Hatfield**. That is rounded out. So that in effect we are talking about increasing difficulties and demands and programs for the coming fiscal year 1990 with a basic shortfall of about $135 million as we commence the fiscal year. I just wanted to confirm those figures.

SOUTHEAST ASIAN REFUGEES

Now, Mr. Ambassador, as you know I had a long-time interest in refugees throughout the whole world and particularly those with the special status in Southeast Asia. I think as part of our whole refugee policy we recognize certain geopolitical conditions that have created refugees in which we have had a greater hand or a greater part in playing than in maybe other parts of the world. So there are distinctions within the refugee issue itself.

I am particularly concerned with what we can view as the erosion of the first asylum status in Southeast Asia which I think personally has been triggered in part by the appearance of a commitment by the United States to resettlement. I now focus on the word "resettlement" as against first asylum.

As you know, I expressed to you a deep concern that a recent shift in refugee admission numbers taken from Southeast Asia to accommodate the growing number of Soviet refugees sent a wrong signal to the asylum countries like Thailand.

Now could you tell the subcommittee what the United States has done to let the Thai and others know that our commitment to resettlement remains alive and well?

Ambassador **Moore**. Thank you for your earlier remark, Senator. One of the privileges of this job has been to work with you and your infectious commitments to refugee humanitarian assistance throughout the world.

The Thai and the United States agree on two things. I suspect we agree on a lot more things, but I am just mentioning two right now. One is that resettlement from Thailand must continue and that the United States will continue to be the leading nation in such resettlement.

The second is that resettlement by itself would be inadequate to deal with the issue in a way that would achieve greater stability in that area of the world with regard to refugees and would be insufficient in itself to assure the sustaining of first asylum principles and humanitarian treatment of refugees by the first asylum countries, by the ASEAN countries.

The Thai and other countries of the area perhaps pointed out before we were fully aware of it of the negative side of resettlement, which is that with more resettlement there is a magnet effect which tends to attract more people from the country of origin to flow in this refugee or this asylum seeker stream into the countries of first asylum.

One needs, therefore, a multifaceted strategy that will balance a number of conflicting but necessary elements at once, and that is what we are trying to do.

INDOCHINESE REFUGEE CONFERENCE IN GENEVA

Senator, you and I discussed this briefly one afternoon in the preparation for the Indochinese refugee conference at Geneva in June, where we are hoping to reinforce first asylum principles and humanitarian treatment; continued resettlement, an absolutely crucial element, including resettlement of the longstayer population that has not been admitted so far to other countries; the strengthening of the ODP program which you mentioned and which we are corresponding about; and the screening of refugees by the first asylum countries with the help and supervision of the UNHCR so that it is made clear that those refugees that are not likely to qualify to be eligible for admissions and resettlement into a third country will know that that is the case and will have to stay in a refugee camp until they are able to return to the country of origin.

This is very chancy yet, we feel, necessary step to take. The screened in refugees who are eligible for resettlement—this is with the current stream of refugees, the Vietnamese boat people principally—are treated differently from the refugees which are screened out by the process I have mentioned, and a signal is sent that asylum seekers who are not refugees, asylum seekers who are determined to be by these procedures that I mentioned, economic migrants or people who are moving from the Indochinese countries into the first asylum countries who are not doing so for reasons of political persecution cannot plan to be resettled in third countries around the world because the Thai believe that if such a disincentive is not provided, the whole population of Vietnam is going to be sucked out, and they are going to be buried by it.

So this is a risky step to take in terms of humanitarian treatment of refugees but one which we consider fair and one which we consider is feasible with these other steps I am suggesting, the last of which is voluntary repatriation to Vietnam. That whole set of factors and considerations which is being intently negotiated right now we feel will comprise a strategy which can stabilize the situation, reduce the flows, and treat refugees right over the next several years.

Without it, we figure that first asylum is going to continue to deteriorate, which scares us very much and which motivates us to move in the strategic direction that I have indicated.

REFUGEES AT RISK

Senator **Hatfield**. Mr. Ambassador, I could not agree with you more.

I am going to yield in just a moment to my colleagues who have a time problem today.

I could not agree with you more that every step is risky. It is a risky step to leave the country, first of all, as a refugee. It is risky to come to the point of asylum, to remain safe in that place. You know as well as I do we have had to do a lot of butt kicking, to put it in the vernacular, in order to keep those moneys that we have appropriated employed for protection of those refugees in first asylum.

It is also risky in the whole screening process. It is also risky in getting that resettlement program because we do not know that even now we can support the resettlement that comes to this country without a battle here in the appropriations activity, as you know that battle.

It is also risky to talk about repatriation. I want to tell you I hope that in this conference you are very, very clear that this country is not going to support repatriation until there is in place a commitment and a way to guarantee a safe return to that country of Vietnam or whatever it may be, because that is very risky business and it is a very easy thing to sign off on repatriation as a quick fix without having that kind of structure in place. All of it is risky.

Mr. Ambassador, I think you know as well that Thailand has had legitimate concerns about our continuing commitment, and we need that kind of ally out in Southeast Asia and not to do other than constantly reassure that ally of our commitment to not only the first asylum but to the screening process and to the repatriation if there is something in place and also to resettlement.

Mr. Chairman, I do have some other questions. I would at this time like to yield back to Senator Kasten and Senator Mikulski.

Ambassador **Moore**. If I could just make one quick response to Senator Hatfield, Mr. Chairman. I would just like to say without any delay that we could not agree more with your comments particularly with regard to repatriation, and we are endeavoring as hard as we can to get those guarantees.

We understand the risk, and we think we are being successful in doing so.

Senator **Hatfield**. Thank you.

Senator **Leahy**. Senator Mikulski, I know both you and Senator Kasten have time problems. I would yield to you.

Senator **Mikulski**. Thank you.

CAMBODIAN REFUGEES

Mr. Ambassador, I am going to pick up on some of the questions relating to Southeast Asia. Senator Hatfield and I have a longstanding interest in this. It has been 10 years since the "Killing Fields." It has been 10 years this October or November since the Khao-I-Dang was founded, and here we are 10 years later, struggling with some of the same issues.

To pick up with what Senator Hatfield was saying about the refugees and their movements, I would like to go to the fact of what we are doing with the refugees. In Khao-I-Dang, as I understand, there are about 4,000 unregistered residents there, and they have been moved to a border camp directly adjacent to something called site 2.

Are we doing anything to prevent the return of Khao-I-Dang residents to a virtual war zone?

Ambassador Moore. Senator, we have been struggling with the issue of Khao-I-Dang for long before I came on the scene, and we are still struggling with it. Khao-I-Dang is the camp where Cambodian refugees are not excluded from seeking resettlement in other nations.

There are perhaps 20,000 or less people in Khao-I-Dang now compared to the hundreds of thousands that exist in the border camps which Cambodians are calling displaced persons because they are not allowed to seek resettlement in any other country.

So Khao-I-Dang is not only the symbol of the "Killing Fields," it is the symbol of the international community and the United States' commitment and opportunity to resettle Cambodians.

Senator Mikulski. I understand, Mr. Ambassador, but have 4,000 unregistered residents of Khao-I-Dang been moved to site 2, and are they in imminent danger? Is there a war going on there, and have we abdicated our responsibility?

I am not minimizing the complexity.

Ambassador Moore. I understand, Senator, and I was about to get to that. Forgive me for not doing it faster.

I do not know the exact number that has reached a place called Ban Thad, which is south of site 2, which have been moved from Khao-I-Dang by the Thai Government with the cooperation of the UNHCR, but there is a number of so-called illegal or unregistered refugees which came to Khao-I-Dang way after the cutoff date that the Thai had set for people not being able to leave the border and not being able to seek resettlement in other countries.

We have been arguing, discussing, cajoling, negotiating with the Thai for a long while to keep that entire population at Khao-I-Dang, all the different groups that have come at different times and different circumstances there, because they are under UNHCR protection and because they have some chance at being resettled.

We have not persuaded the Thai to keep that camp going in the current way that it has been and their first action has been to move the so-called illegals. They are, however, going to a camp called Ban Thad, as I mentioned, south of site 2, which is being administered by the UNHCR and not UNBRO, and we were successful in insisting upon this. They are not without the protection of the UNHCR and the assistance provided by the UNHCR, and I consider that they will be safe at that camp.

There has actually been a shelling of the site 2 camp which lies just to the north of Ban Thad, in recent days. So that whole situation for those cooped up Cambodians along the Thai-Cambodian border is very dire, but I do believe that they are safe, that the fighting will not get into those camps, and that they are being at a certain level taken care of in terms of assistance and protection by the United Nations.

Senator **Mikulski**. Well, I would hope that when the international conference occurs in Geneva Khao-I-Dang and its future are one of the topics of discussion.

Ambassador **Moore**. Senator, you have been very interested in the past——

Senator **Leahy**. I wonder if you could let Senator Mikulski finish her question.

Senator **Mikulski**. Because Senator Kasten has questions as well.

Ambassador **Moore**. I beg your pardon.

THAI INTERFERENCE IN REFUGEE PROCESSING

Senator **Mikulski**. I also understand there has been a ban on interviews, meaning that the Thai Government has declared a halt to United States interviewing of Cambodian border applicants for immigration, visas, and humanitarian parole.

Is that so, and what have we done to restore the processing, at least to move those people that meet all the legal and processing requirements?

Ambassador **Moore**. This is a continuing issue between us and the Thai. You are correctly pointing out, Senator, that the only opportunity we have to take people off the border camps is through humanitarian parole or IV processing. We have been successful in the past in getting access from the Thai to interview people.

I talked with the Thai about this yet again when I was out there a couple of months ago, and I do not think that the situation has changed appreciably. We are not getting the access we would like, but we are getting some, and those people are being taken off.

Senator **Mikulski**. What can you do? I mean, can you exert peer pressure? I know they are under tremendous strain for almost a decade.

Ambassador **Moore**. Sure there is peer pressure.

Senator **Mikulski**. Is this going to come up at the international conference?

Ambassador **Moore**. No; that issue specifically that you raise right now will not come up at the international conference because the Khmer refugees are not going to be a subject of that conference.

POLISH REFUGEES

Senator **Mikulski**. I know Senator Kasten is waiting patiently. Let us turn to a topic that I have been working on.

Senator Leahy asked a good many of my questions related to the Soviet Jewry issue, and we would encourage all efforts there. Also waiting in Rome, however, are 5,000 Poles, and we have been trying to move them once they escape from martial law. They have been sitting in Rome forever. We do not want one Eastern European group in competition with the others, but we really recommended that all economies be made to move these 5,000 people as expeditiously as possible.

I see no comment about them in either the urgent supplemental or in your testimony. Could you tell me what the plans are relative to those 5,000 Poles in Rome?

Ambassador **Moore**. We are concerned about the backlogs of Eastern Europeans in Western Europe, particularly the Poles, Senator. With some of the funding that we got in the dire emergency supplemental last year provided with the help of this committee, we were able to bring out some of the Poles in that pipeline which otherwise we would not have been able to do. We hope over a period of time to reduce that pipeline.

The reason that the Eastern European asylum seekers in Western Europe including the Poles are not included in the supplemental is that we just felt we had to concentrate on the Soviet emigration because it was so much more intense and so much bigger and that we would do better for the time being to concentrate on that population.

We have not, however, stopped working on the Eastern Europe refugee numbers, particularly those who are in Western Europe and in Rome.

Senator **Mikulski**. Thank you, Mr. Chairman. We can pursue this in detail. I know Senator Kasten has the same constraints as I, so I would yield.

I would hope that we would pay particular attention to the Poles. They have been waiting, though we do understand that Gorbachev is a personality, not a policy. We need to move as quickly as we can on Soviet Jewry.

Thank you.

Senator **Leahy**. Thank you.

DENIED KHMER REFUGEES

Ambassador **Moore**. Mr. Chairman, before I lose Senator Mikulski, may I have one sentence which I was trying to get in earlier on a subject which has been of great interest to her in the past on which I have something to report but which she did not have a chance to ask me?

The denied Khmer, Senator, which you have been very interested in in the past and on which you have pressed me in the past and from which I have benefited and respected, we have not worked out a solution to that problem that is as satisfactory as I would have liked, but after long negotiation with INS, we are now reviewing the denied Khmer who are not among the 4,000 that have gone to Ban That on the border but who remain in Khao-I-Dang, people who have been turned down before for admission to the United States.

We hope with the process that has been worked out with INS to be able to bring some thousands of denied Khmer to this country. It will not be as much as we would like, perhaps, but there has been real progress and real tenacity given to that problem.

Because of your own interest in it, I just wanted to mention that.

Senator Mikulski. Thank you very much.

Senator Leahy. Senator Kasten.

WHO QUALIFIES AS A REFUGEE

Senator Kasten. Mr. Ambassador, what is the current turndown rate for Soviet Jews being interviewed in Rome? You can give me that if you wish, as of last week. I just want to start with a reference and with a number.

Ambassador Moore. The current approval rate in Rome for April is 77 percent.

Senator Kasten. Seventy-seven percent. So the turndown rate is 23 percent.

What was the turndown rate for Soviet Jews in Rome going through the same process in September or August of last year?

Ambassador Moore. I do not know what it was in August or September of last year, but I do know——

Senator Kasten. Was it less than 5 percent?

Ambassador Moore. I believe so, because early this year it was between 5, 6, and 7 percent.

Senator Kasten. Do you have a chart there with you?

Ambassador Moore. I do not think it goes back that far.

Senator Kasten. The chart will show that it was below 5 percent until the early fall, when it went from 5 to roughly 15 percent through the early winter, and now it has gone from 15 to 25 percent or more in the last couple of months.

I am told in the last few weeks there are instances where it could be going over 40 percent.

Now how do you explain the increasing rate? Do not quarrel with my numbers. How do you explain the increasing rate of turndown for these people?

Ambassador Moore. I am not sure that I can adequately. I am going to comment on it, Senator, but if you will just allow me a brief disclaimer which we all understand, you as well as anybody here, that the Attorney General and the INS are responsible for both the laws and procedures implementing them with regard to refugee adjudications. They are, therefore, more expert and more informed than we.

My belief is that the INS is finding that the people who are coming out of the Soviet Union seeking asylum and to come to be resettled in the United States are more of a mix of people than previously, with a smaller percentage—relatively—of people who have actually experienced political persecution and a larger percentage than previously of people who are fleeing the Soviet Union for other purposes.

When you get such a huge increase in numbers over such a very, very short space of time with the Soviet Union allowing immigration to many, many more people, it is logical to assume without running individual interviews with those people that some will not be leaving for the reasons of political persecution, for the reasons that qualify you to be a refugee.

Senator **Kasten**. I have in front of me a report from the State Department dated April 5, 1989. It is a report to the Congress on refugee admissions, and I am going to pick direct quotes.

This report states:

> Antisemitism is deeply rooted in Russian history, and one of the side effects of glasnost has been the emergence of groups such as Pamyat, which express traditional great Russian nationalism and antisemitism. Their rhetoric undoubtedly increases Jewish feelings of insecurity. Jews still face many forms of discrimination, including exclusion from schools, jobs, and housing. Believers also face discrimination in the workplace and elsewhere.

That is the tone of this report.

I understand what you just said to me, but I also feel that you can make the case with your own report; that, in fact, being a Jew in the Soviet Union is justification for qualifying under our laws.

Do I understand correctly that a simple declaration through a letter from the Attorney General that Soviet Jews are a persecuted minority would be sufficient under the law to classify all of the emigrating Soviet Jews as refugees? This is essentially what we were doing until the policy changed over the fall and into this spring. Is that right, that a simple declaration that Soviet Jews are a persecuted minority would in effect make all of them qualify?

Ambassador **Moore**. I am not sure that the Attorney General under the Refugee Act of 1980 has the authority to do what you have just described, Senator. When I say I am not sure, I mean literally I am not sure. I do not know.

Now if an individual group, sir, is legislated so it is a matter of statutory decision and authority to be determined by statute refugees, you can do it that way. The Attorney General obviously is allowed a lot of discretionary authority in the way that he carries out the Refugee Act which now exists without further statutory change to give, as I was mentioning earlier, by the use of categories of people who can demonstrate that they are targets of persecution, to give special attention within the existing statute in the worldwide standards so that those people are given extra special attention and generosity to be sure that they are refugees.

Senator **Kasten**. We understand that and, in fact, they have been given extra special attention. What they have been doing is giving the extra attention away opposite to what Congress would like them to rather than excluding more and more every month, we would like them to include more and more every month because we believe the emigration of Soviet Jews is something that could stop tomorrow, that the door could close.

I share the comments of Senator Mikulski and Senator Hatfield with regard to the Asian questions. We are not in the business of trading slots, I think that was a terrible mistake to take slots from one part of the world.

I also associate myself with their views on Southeast Asia and the problems there, and will work with you and them to solve those problems; but I just want to discuss this issue first.

Ambassador **Moore**. I understand, and I am very sympathetic, sir, with the problem of the high denial rates both in Rome and in Ho Chi Minh city. I want the record to show that, and I want to be compelling with you when I state that. We are working very, very hard with INS right now on that question.

RAISING THE NUMBER OF VISA SLOTS

Senator **Kasten**. A source in Rome said yesterday that there are now 10,000 Soviet Jews waiting there. An additional 4,000 are waiting in Vienna.

I asked these questions of the Secretary of State and of the Attorney General.

We have heard for 3 weeks that the administration is about to call a consultation to raise the number of visa slots available. When is this consultation going to take place? Given the severity of the situation, why has it not yet already taken place?

Ambassador **Moore**. Thank you, Senator. Actually, the consultation as it is defined under the act began when that report which you cited earlier was sent up by the President to the Congress making his proposal for the increase in refugee numbers for fiscal year 1989. It continued when the House Judiciary subcommittee had a hearing on the subject and other related subjects, including the subject that you just mentioned a moment ago.

The next step is for either the Attorney General and for the Secretary of State, again as described under the statute, to meet with the consultative members of the House and Senate Judiciary Committees.

I am informed that that Cabinet member will be the Attorney General on this occasion and that he is now contacting the consultative members of those two committees to set up the discussions which are necessary under the act.

Senator **Kasten**. That is one of the frustrations I know about, and I want to associate myself with the remarks of Senator Hatfield, also. I think over the last couple of years yours has become just a darn tough job at a time in which immigration policy and refugee policy is changing dramatically throughout the world. Sometimes you end up at the other end of these questions because you are the one who is sitting behind that microphone. My guess is that more often than not, you have lost these battles before OMB and other places. I think you are working hard, and you have a tough, tough job.

Ambassador **Moore**. Thank you.

ITALIAN RESPONSE TO REFUGEE BACKLOG IN ROME

Senator **Kasten**. Let me ask just one final question, and then I must leave for a moment and will return later.

How is the Italian Government responding to this growing backlog in Rome? Are there indications that you or your people have received indicatings that it might just be a matter of time before they decide that they are going to close their doors?

I am asking that because it is what has happened to us in Southeast Asia. They just got frustrated with the work, and they started to take actions which none of us would agree with.

What is the attitude or the position today of the Italian Government with regard to this huge influx of European and Soviet Jews? Have they indicated to you any kind of concern or frustration, or are they satisfied and happy? Could you describe the attitude of the Italian Government?

Ambassador MOORE. They have indicated to us their distress and their concern, and we have had a lot of talks with them about it. The same with the Austrian Government. They do understand that we are under a lot of immediate pressure, that we are committed to taking these people out of Italy and into the United States, and that the basic understanding between the two governments, although we are going through very tough times right now, is going to be honored. They also understand the situation that we are in.

Italy as well as other Western European countries has a lot of difficulties which we do not have much to do with regarding asylum seeker flows from both Eastern Europe and now from Africa and the Middle East, so they understand that we are dealing with very, very challenging problems which have a lot of conflict built into them; the need for humanitarian treatment on the one hand, for instance, and the need to protect your borders and keep from being buried by a population from the outside on the other.

Senator KASTEN. Mr. Chairman, I am going to yield at this time and excuse myself for a couple of minutes. I do have other questions which I would like to discuss with the Ambassador.

DOMESTIC REFUGEE RESETTLEMENT COSTS

Senator LEAHY. Thank you. I am also going to have to leave, and I am going to leave it to the remaining Senators to run this.

I would note, Mr. Ambassador, that while domestic refugee resettlement costs are not your responsibility, I want to leave a message with you for the administration that many states are being overburdened with refugee resettlement costs. They are getting insufficient help from the Federal Government. There is a lack of a supplemental request from the administration for the Department of Health and Human Services Domestic Resettlement Program, for example.

I will leave with you and your staff quotes from a letter from Vermont State refugee coordinator to Mr. Phil Holman of the Office of Refugee Resettlement at the Department of Health and Human Services and ask only that you convey to your colleagues of the Interagency Refugee Committee that some of the states are feeling some real tight binds, too.

Ambassador MOORE. I agree with that, and I welcome that, Senator.

Senator LEAHY. Senator Hatfield.

CONSISTENT FIRST ASYLUM AND RESETTLEMENT POLICY

Senator HATFIELD. Mr. Chairman, I would like to follow up just a little bit on this matter of Soviet Jews. I have been deeply concerned about refugees, as I indicated, in every part of the world, and I agree with Senator Kasten. We do not want to get into a situation where we are trading slot for slot amongst the suffering of the world.

Also, I would like to make the observation that as these turndowns have increased in Rome and elsewhere relating to Soviet Jews and Soviet refugees generally, the turndown rate for ODP's in Southeast Asia has now reached 90 percent. This probably reflects our ability to deal with the problem.

Now Mr. Ambassador, considering the steps required in all refugee handling—first, the identification, the screening, the first asylum within the first asylum countries and then the matter of resettlement—do the Soviet Jews in Rome have an option to be resettled other than in the United States such as Israel?

Ambassador MOORE. Yes, sir; they do.

Senator HATFIELD. Is there a position on the Israeli Government's part as to their preference for Soviet Jews coming to Israel as against the United States that they have communicated either formally or informally to our State Department?

Ambassador MOORE. I think they have made it clear publicly that that is so, Senator.

Senator HATFIELD. So that in these steps in the handling of refugees, one of the problems we have had in Southeast Asia is to maintain the interest of our allies in taking the Southeast Asian refugee in a resettlement relationship or arrangement; is that not true?

Ambassador MOORE. Yes.

Senator HATFIELD. So consequently, one of the problems we have had in this country is handling the resettlement of refugees not only in the matter of bringing them here but of supplementing the budgets of the local government authorities in this country to help them in resettling once they do get here. Is that correct?

Ambassador MOORE. Yes.

Senator HATFIELD. It seems to me that we ought to have a worldwide policy, and to explore the possibilities of how we can move from first asylum to resettlement as quickly as possible.

I just want to point out that Soviet Jews are a special case because there is a host country ready, willing, able, and anxious to take them from first asylum to resettlement.

AFRICAN REFUGEES

Now let me ask you about one other group of people. As you know, we have been deeply concerned about South Africa and Mozambique. These countries illustrate my point again about the importance of having a policy and a structure in place to make sure that those being repatriated will have a safe and secure future.

It is my understanding that you explored this in your recent trip. Could you give a brief report on what the United States has done to protest the South African Government's forced repatriation of Mozambique refugees and what the United States is doing to meet the needs of these refugees?

Ambassador MOORE. Thank you, Senator.

We have protested very strongly to the South African Government, I, personally on this trip which you mentioned, for their forced repatriation of Mozambiquan refugees in South Africa. It is not even very consistent with South African current policy to achieve a more neighborly and a more stable relationship with Mozambique.

One of the specific proposals that we have been working on is to try to encourage a UNHCR presence in the Republic of South Africa which could provide care and assistance to the Mozambican refugees in South Africa but which could also preside over, participate in, monitor, help run with both South Africans and the Mozambicans a voluntary repatriation program which would not take care of everybody but which would at least make more orderly and, for part of the population, make more humanitarian the treatment that they are getting within South Africa.

That has not gotten anywhere yet, but we will continue to press it. It has made on behalf of the Mozambicans and the South Africans and the UNHCR statements of interest, of willingness to consider a possibility of working something out, and we will continue to press on that.

In the meantime, the voluntary agencies and the church organizations, Operation Hunger, the Catholic Bishops of South Africa, the ICRC and other organizations are all providing help within South Africa for the Mozambican refugees, and in varying ways we supply support and funding for them to do so, and we will continue to do so.

Senator HATFIELD. Thank you very much, Mr. Ambassador.

Thank you, Mr. Chairman.

Senator LAUTENBERG [presiding]. Thank you, Mr. Deputy Chairman.

Mr. Moore, I hope that we will not be repetitious. I have only a couple of things.

I understand that Senator Kasten is on his way back, but we will let the committee function until the moment he has returned.

THE DEBATE OVER REFUGEE STATUS

I want to ask you this question. Again, I am not sure that this has not been discussed, but I think it is worthy of restatement anyway. I want to ask you very directly, would you support legislation to restore a rebuttable presumption that Soviet Jews, Evangelical Christians from the Soviet Union, those holding a letter of introduction and register with the Vietnamese Orderly Departure Program have a well-founded fear of persecution that entitles them to refugee status?

Could we get your help with legislation in that regard?

Ambassador MOORE. Senator, we are acquainted with at least in an earlier form your own legislation, and we are looking forward to studying it and making our views known on it.

You have not asked me to, but let me say nonetheless that I am not authorized to give a position of the administration on the bill, nor have I had a chance to study it with the care that I must. The idea of finding a way to give adequate treatment to groups which demonstrate that they have been targets of persecution within our current worldwide standards of refugee adjudication using individual interviews and using the common U.N. convention refugee definition is something which I care, we all care, I believe, in the administration very much about.

If that turned out to be a finding of rebuttal presumption in a way which supported the basic principle of equitable treatment throughout the world under the Refugee Act of 1980, then we would look upon it favorably and give very, very careful consideration.

There is obviously a difference of opinion, and I respect any ideas on this subject because there is an awful problem that we have got to deal with more successfully than we are dealing with now; but there is a difference of opinion whether it should be done as an automatic presumption, as an absolute group determination outside of the parameters of these equitable worldwide standards in the Refugee Act of 1980 or whether it could be done within those parameters.

Up until and for some period of time since I have been with the Federal Government, the administration has been in favor of working the problem within the parameters of the worldwide standards in the direction of a rebuttal presumption approach rather than an automatic presumption approach. I do not want to be too precise on this because I am just not competent or authorized to be at this point.

If that is where we are working, then we are working on that together.

Senator LAUTENBERG. I think I heard what you said. I am not sure I understand where we come out.

Mr. Moore, the problem here is that there has been a change in procedure; that the GAO confirms or at least suggests that the reviews are not conducted uniformly; that time spent in interviews is not consistently the same; that we have for years now said that as far as we are concerned that those Soviet Jews in particular applying for immigration status are welcome.

We said that as far as we were concerned, religious persecution was obvious.

We hear now a dispute being aired publicly between, let us say, the Secretary of Defense and his forecast on where current Soviet policy is going.

I do not want to ask you for opinions on that debate. All I want to do is raise the notion that things have not changed materially enough to satisfy lots of people who are concerned with Soviet policy.

Ambassador MOORE. Or permanently enough.

Senator LAUTENBERG. Or satisfied that things have changed. It is hard to understand why this change of policy suddenly came about.

Are we saying, OK, we considered you refugees until you were x number, and once you get over x number, why, we no longer considered you refugees in the same way?

So we hope that we will be able to reduce that denial rate. It is said that it has been as high as 40 percent. We heard Senator Hatfield talk about the denial rate of the Vietnamese seeking refuge here.

Are we kind of at a crossroad here with our policy when we encouraged people to come and find freedom, and now suddenly we are putting the brakes on, saying, OK, we felt that way before but now we do not?

I am hoping we are going to be able to do something to get those people who left the Soviet Union, because they believe there was an opportunity for them to practice their religion, to be free people, and to come here and now find out that for all kinds of reasons it cannot happen.

Ambassador **Moore**. I have listened to what you said very carefully, Senator, and I think you are approaching it in a very reasonable manner. I have already said earlier in this hearing that I am worried about the denial rate level. I think that not being quite the right person to talk to about this, not being either the Attorney General or the INS Commissioner, who are responsible for both the law and for administering the program, nevertheless I think that a combination of the increased sum changes within the Soviet Union and the increased numbers which flow as a result of their changed emigration policy did bring in this larger number of people, some asylum seekers who were not leaving because of political persecution.

For instance, I believe that the time has passed when seeking to leave the Soviet Union was in itself a reason for claiming political persecution. How much the changes have been and how permanent they are, we will not know for a long time. But we do know that we have to deal with the very problem that you indicated, which is, how can you encourage this to happen, and how can you stick by your own human rights principles and then spurn these people who have fled or who have flowed?

I hope that what we are talking about, all of us, is how best to deal with this rather than whether we care about it or not or whether we are not alarmed about it or not.

I believe that if you are going to run a worldwide refugee admissions policy or program which is equitable, as you respond to emergency urgent special humanitarian needs in one area of the world, you have to be sure (a) that you do respond effectively, but (b) that you do not do so in such a way that creates inequities or discrimination elsewhere.

I think that a combination of (1) the Refugee Act we have today, some means, whether by the use of categories or rebuttable presumption, whatever we would work out to be the best means within that system to give the urgent attention that is required to certain groups, combined with (2) the offering of humanitarian parole which the Attorney General has done and which now the administration has put up new legislation to substitute for that humanitarian parole, flawed, limited in its extent, but the resourceful interim step not to deny them the opportunity of coming to the United States at all and not used for any other population in the world except the Vietnamese, a real exception, combined finally—and we did talk a little bit about this before you were here, Senator, but you have alluded to it yourself—with (3) being sure that the capacity, that the competence, that the enlightenment, that the training, that the adequacy of personnel within the INS for making these adjudications right—it is an awful job we have given them. It is a terrible job, and it is very, very difficult to do it well, but to reduce the margin of error and to increase the effectiveness as much as possible—all of those various things I think is what the recipe, what the agenda is for accomplishing what you are talking about.

Senator **Lautenberg**. If the policy is clear, the administration of it is more precise, then I think we can get done what we want. The problem is on us. I would appreciate your review of the legislation that has been proposed and a response back from you as soon as we can get it, because you know that the parole status is not the equivalent of the refugee status, and would like to help move those people from the temporary stops that they have which are becoming more permanent and giving them an opportunity to come here to this land that we promised them which we promised them we would hold our arms open for them.

Ambassador MOORE. Senator, we appreciate your concern, and we look forward to studying your legislation.

Senator LAUTENBERG. Senator Kasten.

FISCAL YEAR 1990 BUDGET AND APPLICANT ESTIMATES

Senator KASTEN. I appreciate your staying. I will not take a whole lot more time, but I just want to get one or two other things on the record. This is a little bit repetitive, but the State Department has estimated that 40,000 Soviet Jews will seek to enter the United States as refugees in fiscal year 1989; is that correct?

Ambassador MOORE. We believe that it will be much more than that who will seek to come to the United States during fiscal year 1989, although that figure is very difficult to predict the applicants as distinct from those who would be admitted.

We believe, and we indicated this in the supplemental appropriations request, Senator, that there will be 43,500 who we can get admitted during the fiscal year if we get the money soon enough and we can get in here.

Senator KASTEN. Now private agencies estimate that close to 60,000 Soviet Jews will seek refugee status, and I assume that glasnost and perestroika will continue. Private agencies are saying that there will be roughly 60,000 Soviet Jews seeking refugee entrance in fiscal year 1990.

Do you have an estimate for 1990, and does it match that one?

Ambassador MOORE. No; I do not, sir. I would not do that formally in my responsibilities until we did the consultations for fiscal year 1990 next September, but if I were to make a prediction now, it would be at least 60,000 for fiscal year 1990.

Senator KASTEN. Then just to finish this because it is related to what a couple of other people have already pointed out, if you estimat an increased flow in 1990, why are you asking for less money in 1990 than in fiscal year 1989 even though the fiscal year 1989 appropriation has proven to be insufficient?

Ambassador MOORE. Yes, sir; not to quibble, but I am not sure that the flow for fiscal year 1989 of applicants will not be at about the 60,000 level, so a 60,000 level of applicants in 1990 might not be an increase. Let me see if I can address your point.

The Secretary of State, as you know, has testified that we have a study underway in the State Department which looks at the ongoing policy/program/numbers/dollars issues of Soviet emigration and admission to the United States. When that review gets done and gets through an interagency process so that it becomes a matter of administration analysis with some recommendations, we want to consult with the Congress about them.

They would clearly have an impact as far as the Soviet admissions part of the fiscal year 1990 budget, and I think that the Secretary has so testified. If that is so, and it is likely to be so, we will be back to talk with you about the fiscal year 1990 budget in that respect later.

Senator **Kasten**. Let me, if I can, cut through this a little bit. The difficulty some of us perceive is that because of budget constraints, the percent of refusal is going up. Some of us perceive INS people over there being instructed to say they have no quotas. We would never say that the police department of Waukesha, WI, judges its parking meter police on how many tickets it issues, but it is understood.

There was a policy change that took place after the August restatement of the Attorney General to which you referred in your opening remarks. That was the beginning, if you will, and it has been accelerating since then. We are now up at your numbers, or 23. My numbers are a little bit higher, and I am not going to quibble. There is no question about the direction, and I would agree with you, there is no question about the fact that some of these people are weaker cases for refugee status.

I believe they all should qualify for refugee status based on the words that I have picked out of your report, but we will worry about that.

The point is that we are not going to allow budget restraint for INS or for you to continue to make these numbers change. I think that we will have to work with you and with your predecessor.

FISCAL YEAR 1990 SUPPLEMENTAL POSSIBILITIES

Now where are we right now? Your request for 1990, we both agree, is inadequate to address the continuing flow of refugees from the Soviet Union. Do you plan to request an amendment to the fiscal year 1990 budget before we move on this budget or will you wait until next year and then come back with an emergency supplemental? Has that been discussed?

It is still not too late to change the 1990 numbers so we know where we are going into this effort.

Ambassador **Moore**. I do not know the answer to the question, but it has been discussed, and the emphasis has been on coming back in time to catch the fiscal year 1990 budget rather than waiting over until fiscal year 1990 and then coming up with a supplemental.

The effort is underway to get the policy review completed as soon as possible so that we can come with some viable and some compelling recommendations, and I cannot predict exactly when that is going to happen.

Senator **Kasten**. No; but we can predict when the different steps in the budget and appropriations process are likely to take place. I think notwithstanding the fact that we may not always do such a good job with our budget and appropriations process, we can do a lot of estimating.

The question is can you officially come up here and say that you need x million dollars more than we were asking for? Let us be honest with one another so we do not go through the frustration that we are going through right this moment with regard to this year.

Ambassador **Moore**. I hope we will be able to do that.

Senator **Kasten**. I do, too.

Ambassador **Moore**. May I go back to something you said before? Forgive me for mentioning it, but I want to be fair to my colleagues and to their own responsibilities. I do not know everything that happens about refugee adjudication and interviews and the determinations, but I do not believe that the quotas or the refusal or approval rates are set by budgetary considerations. I would do everything that I could do to prevent that from being so, but I do not believe it is so.

NO CONSENSUS REGARDING REFUGEE POLICY

With just one further remark about money, there is a consensus of frustration, exasperation, dissatisfaction about how we are dealing with refugee programs as a nation both in the admissions and the assistance areas. It is curious because I think that our efforts are heroic and are way ahead of everybody else in the world. In fact, we get other people in the world to behave very differently toward refugees than they would without us.

Yet, the efforts are not adequate. At the same time, they are not effective, and they are not good enough. There is no consensus yet, however, about policy or resources with regard to refugees. People sometimes who are concerned about refugee matters will say either it is not proper to consider dollars when you are talking about human lives, or sometimes people will say do not worry about the money, it will be forthcoming.

I do not think either of those things are automatically true. I hope that we will achieve a consensus with people such as yourself and your colleagues and my colleagues downtown which can sort out policy and resources in a way that we can all continue to be proud of in terms of U.S. refugee policy and that we will grapple successfully with some of these very nasty problems that we are dealing with now.

We have not yet worked out that kind of support and that kind of consensus.

Senator **Kasten**. I would say that part of that is happening right here as well. The Judiciary Committee has difficulty working with these issues and is struggling to figure out an overall policy for all different parts of the world.

As a result of the difficulties they have had in the Judiciary Committee you have appropriators and other people trying to change little parts of it because the overall position has not been established.

I am picking at little parts of it right now because I am not working on a rewrite of Alan Simpson's immigration bill or any of these other things that comprise the big picture.

Now let me go back. Given the fact that the supplemental has been held up—and I heard this noon that the supplemental might be held up for a number of weeks—there is chaos and frustration after the Foley amendment failed.

EMERGENCY FUNDS FOR ROME

I wonder, are there any sources of funds available to provide emergency money to Rome on a temporary basis? If those funds could be used now, would they be repaid when the supplemental passes?

I understand some of it is your money, some of it is INF's money, and there are all sorts of different moneys there.

Are there funds which we could make available now? You said the funds in the emergency account are, if I remember your statement to Senator Leahy, $12.5 million, and you went through the five that have been going out, two or three tranches; is that right? You say there is $12.5 million in the emergency account. Could that money be used on a temporary basis in Rome, and are there other places we might be able to find money that could be paid back later?

Ambassador **Moore**. The ERMA fund presumably could be used for that purpose if the legal decision were made that the conditions of its use were fulfilled.

I do not know whether they could be or not. There are requirements for the use of the fund that relate to its being truly an emergency that was not predictable, that it not be something that other processes of appropriating moneys knew about but did not take adequate advantage of.

I think it would be very difficult to use the ERMA in a case which had been contemplated by normal regular sources of funding and not funded.

Also, the ERMA, as you understand better than most, Senator, and this is not a prohibition at all, is principally designed for people who are not trying to come to a given country for resettlement faster but designed for people who are in life-threatening circumstances and might die if they do not get the assistance. That is not the only reason, but that is the principal reason why the ERMA was set up and how it is used.

The voluntary agencies themselves, particularly HIAS, as I mentioned in my opening statement, have come forward with hopes that they would be reimbursed by a supplemental in such a way as to indicate that they will, as far as they can—and it is very difficult to interpret exactly how long that will take—keep the program going as long as we have the numbers and until we get the dollars as far as Rome, as far as processing refugees in Western Europe is concerned.

So they should not be left out as a source and even a source that is already being tapped in order to avoid the prospect of actually shutting down refugee processing in Rome of the Soviet flow until more money can be made available.

I know of no other sources, Senator; and in any case, we need the money as fast as we can get it.

INTERMEDIATE REFUGEE STATUS

Senator **Kasten**. The administration has submitted legislation, part of which intends to provide for a different category of refugee somewhere in between the parolee and the refugee. If I understand this properly, this is an attempt by the administration to relieve the influx currently coming from the Soviet Union and the difficulty of people wanting only to accept refugee status and not parolee status.

Could you give me a very brief description of this legislation and tell me what kind of reception it has received from the committees of jurisdiction so far?

Ambassador **Moore**. Just to answer the last question first, I do not think that we have gotten a formal or even an articulate reaction from the committees which are responsible. There has been a lot of discussion about this legislation, but I do not think that we have received any direct word from the Judiciary Committees about what they think.

Hearings will have to be held. There is going to be a lot of different kinds of testimony, and I would suspect that there might be some serious amending that could happen before the legislation would move on.

Very briefly, as you requested, Senator, this legislation would create a pool of 30,000 special immigrant visas, 30,000 per year, meaning that the President, after consultation with Congress, could determine the use of these numbers for admission of people for whom we had special humanitarian concern, such as the group that we are talking about now but not just limited to that group, who fell neither in the immigration stream nor were found eligible to be refugees.

This flexibility, this other category has been discussed for a long time and is at work in some other countries already which we have studied as models.

We think that even if we were not under the immediate pressure we are with regard to those Soviet emigres who are turned down to be refugees and offered humanitarian parole, but a use of humanitarian parole, by the Attorney General which may in numbers and in time exceed his authority, even if we did not face the need to use this legislation for this particular set of circumstances, we think it is a very good idea in terms of how to run the refugee program over a period of time.

This is one of the most important parts of it. This legislation will enable permanent residence status to the people who are brought in under it and retroactively for any parolees in fiscal year 1989 so that one of the limitations of the current parole system which is that their future status in this country is not clear when they come here, that would be taken care of. That is the major flaw of the current system.

Senator **Kasten**. The difficulty some of us have with this legislation is that it does not solve our emergency problem. In other words, we have to figure out what is happening in Rome and Vienna. I, at least, have not been counting the numbers that are backed up in the Soviet Union, and there are some in Moscow.

We have to work our way through this one problem, and I think we have to work our way through this problem without the Judiciary Committees passing this legislation.

That does not mean I do not support the legislation. I do not know enough about the intermediate status, but I think we have to work our way through this in something other than that vehicle.

AMBASSADOR MOORE'S DUAL JOB TITLE

I have one final question, and in a way it relates to what we were talking about a moment ago when we were thinking about overall policy and direction as opposed to some of the day-to-day work all of us do.

You have two lines in the organizational directory of the Department of State. You are on two different pages. The phone number is the same, but in one group you are in the Office of the Secretary, and you are listed as one of the Ambassadors at Large and Coordinator for refugee affairs.

Then if you go down through the different departments, you are listed as the Director of Refugee Programs.

My understanding is that there used to be a different person in each of those jobs. Is that your understanding?

Ambassador **MOORE**. That is my certain knowledge.

Senator **KASTEN**. My understanding is that the Ambassador at Large and Coordinator's job is to deal with the problem that we are up against every day, and that is that part of it is in INS and part of it is at State, and part of it is here, and part of it is there. The Congress has this stuff split.

Ambassador **MOORE**. Part of it is abroad, part of it is with the Governors of the States, et cetera.

Senator **KASTEN**. How did you get to be in both jobs? Would you recommend that the next person do both jobs, or would you recommend that we make an effort to have two different people so we will be in a position to have a better coordinator, if, that person could turn out to be a coordinator?

We have you in the business of coordinating yourself plus two or three other departments right now.

Ambassador **MOORE**. I understand the question, Senator, and I thank you for raising it. It is a question that I obviously have to deal with all the time.

I was asked by Secretary Shultz if I would serve in both positions, and he also said study it, analyze it, consult about it in the Congress as well as downtown and come back and tell me what you think. I reported back that I felt it could be done by one person. He felt strongly that it should be, so I agreed to do it.

Clearly, the two jobs reinforce each other. The job of Director of the Bureau for Refugee Programs, which is the State Department's refugee programs operation similar to although also very different from INS and the Justice Department and the Office of Refugee Resettlement in HHS, is totally under the jurisdiction of the Secretary of State and is an integral part of the State Department's operations.

If the Director of the Refugee Programs Bureau is also the U.S. Coordinator, that enhances the Refugee Bureau Director's job in many respects, and vice versa.

The U.S. Coordinator was set up, as you know, sir, in the Refugee Act of 1980 to be the overall refugee coordinator for the Federal Government but also to take the lead with the States and to take the lead in international affairs and to take the lead with the Congress.

I might say that the rhetoric and the expectation, the aspiration, if you will, of that act is not matched by real authority and power; therefore, the U.S. Coordinator is expected to do things which he or she cannot really do. You do as best you can, but you cannot, for instance, tell anybody in the Federal Government to make a certain decision, and you cannot print money.

Nevertheless——

Senator **KASTEN**. Excuse me. The Coordinator as it was envisioned would not have been in the position where he could tell people in the Government what to do?

Ambassador **MOORE**. Not if you read the statute, sir, no.

It is a very valuable——

Senator **KASTEN**. I understand there is a fine line that we are drawing. OK.

Ambassador **MOORE**. I think that the job of the U.S. Coordinator is a very valuable job to bring a higher priority to refugee matters, to achieve greater coordination, to do some troubleshooting.

If the Coordinator who has no resources in itself is also the Director of the Refugee Programs Bureau in the Department of State which has resources, that in a certain sense gives the Coordinator greater strength than he or she would have otherwise. In other words, here is the mutually reinforcing point working in the other direction, Senator.

The other thing that has to be kept in mind, however, is that the two jobs must be kept separate. They cannot be homogenized. They cannot be consolidated. Obviously, the Director of the Bureau of Refugee Programs, because it has a $370 million budget, cannot disappear, but the U.S. Coordinator cannot disappear into the role of the Director of the Bureau for Refugee Programs. Independence and separation must be maintained. That is difficult to do, but I think that it can be done.

I have been frustrated at times in having to do both jobs because I felt that there was a possibility that I was not doing either job as well as I could if I held only one job.

Senator **KASTEN**. Well, I disagree. I appreciate your answer, but I disagree.

For example, if Ambassador at Large for Counterterrorism Bremmer had also been the Director of the FBI, how would that have affected his way of doing business, or if he had been at the FAA? Put it in any other perspective; if he had to deal with a whole group of people.

You have two 24-hour-a-day jobs, but you are only one person either of these jobs is big enough for one very strong person.

ADDITIONAL COMMITTEE QUESTIONS

Anyway, I appreciate your answer to my question. I also appreciate your staying.

I want to note that we will leave the record open for questions.

We thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

ETHIOPIAN REFUGEES IN THE SUDAN

SENATOR HARKIN: On March 28, I wrote Secretary James Baker about the status of 4 Ethiopians now in Sudan who have been sponsored by Iowa families to come to Iowa City and Ames. The visa applications of the 4 have already been approved by the U.S. Immigration and Naturalization Service but the Sudan Government has not acted on their requests to come to the U.S.

Their names and INS approved dates are:

Woldu Asfaha Kifle	2/10/88	Case #SU-10303
Tecle Tedla Guitom	2/17/88	SU-11078
Isaac Tesfagaber Medhin	2/88	SU-12646
Tefai Mebrahtu Fekak	10/30/88	SU-11743

In April, the U.S. Ambassador to the Sudan informed me that the problem rests with Sudan's Resettlement Committee which must approve their departure before they can receive an exit visa to leave Sudan. The entire process could take from several months to 2 years.

Earlier, in July 1988, I wrote about a similar case, involving Gebray Habteyesus Hagos, who after being forced to leave his home in Ethiopia in 1975 fled to a Sudanese refugee camp.

What is the current status of the five Ethiopians now in Sudan -- Woldu Asfaha Kifle, Tecle Tedla Guitom, Isaac Tesfagaber Medhin, Tefai Mebrahtu Fekak, and Gebray Habteyesus Hagos?

What is the status of the other 900 Ethiopian refugees now in Sudan who have been INS approved for the U.S. Refugee Program?

What steps have the U.S. Embassy in Khartoum taken to help expedite this situation? What steps does our Embassy plan to take with the Sudanese Government to resolve this problem?

It is my understanding that the Sudan Resettlement Committee last met in April 1988. Is this Committee planning to meet again this year? and when? Has our Embassy urged the Government of Sudan to reconvene its Resettlement Committee?

How many other INS approved refugees are now located in camps in Sudan? How many do not have exit visas? What is our Embassy doing about their situation?

AMBASSADOR MOORE: We will ask our Embassy in Khartoum to provide you with a direct report on the status of the five cases you mentioned. As of May 31, there were 2,265 INS-approved Ethiopian refugees in the Sudan. The departure of these refugees to the United States is a high priority objective, and our Embassy continues to use every appropriate opportunity to urge senior officials of the Sudanese Government to expedite this process.

In March, after a long hiatus in any departures, 139 Ethiopian refugees received exit visas and departed for the U.S. in April. Also in April, the Khartoum Resettlement Committee began meeting again on a regular basis, and the Sudanese authorities granted exit visas for 25 persons in Gedaref. In May, our Embassy reported that an additional 250 Ethiopian refugees had received exit visas. We are encouraged by these developments and have urged the Sudanese authorities to expedite processing still further so that the available FY 89 admissions numbers can be used by as many as possible of these approved refugees.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

MOZAMBICAN REFUGEES

SENATOR MIKULSKI: The Republic of South Africa forcibly repatriated more than 20,000 Mozambicans during 1988. There are reports that during 1989 it is planning to repatriate as many as 50,000 Mozambican refugees who currently enjoy at least a limited safe haven in the South African homelands.

Is the U.S. government aware of these threatened forced repatriations? If so, what steps is the Administration taking to convey its concern for the fate of these Mozambicans to the Republic of South Africa?

AMBASSADOR MOORE The U.S. government has heard from several sources in southern Africa that the Republic of South Africa has plans to repatriate the estimated 50,000 Mozambicans who have sought refuge in the homelands of Kangwane and Gazankulu. We have registered our concern with both governments and with international organizations. The South African government's Department of Foreign Affairs has denied any intent to repatriate the refugees. We understand that a Mozambican government task force will be allowed to visit the refugees and assess the situation before any repatriation begins. This task force has not yet been dispatched. We are continuing to monitor the situation and will take appropriate action should it appear that forced repatriation is likely to occur.

SENATOR MIKULSKI: A year ago the State Department issued a devastating report on the plight of Mozambican refugees. What is the current situation regarding these refugees?

AMBASSADOR MOORE: The number of these refugees continues to grow. There are approximately 1.1 million Mozambican refugees spread across six African countries. The principal cause of refugees from and displaced persons within Mozambique today is fighting between the Government (GPRM) and Renamo, the rebel resistance group.

The refugees are receiving generally adequate assistance from the host governments and the international community, led by the United Nations High Commissioner for Refugees (UNHCR). Malawi, with 640,000 refugees already present and more arriving daily, is particularly worthy of commendation for its generosity and hard work in this regard.

The estimated 225,000 refugees in South Africa are not recognized by that government and only a limited number receive international assistance. The USG has pressed for more international involvement with the refugees (including a UNHCR presence) and is promoting a peaceful resolution in Mozambique.

In April 1988, the Bureau for Refugee Programs published a study based on extensive interviews with recently arrived refugees which chronicles their reasons for fleeing. Its principal findings were:

--the level of violence committed by Renamo against civilians was extraordinarily high;

--the relationship between Renamo and civilians revolvedaround the extraction of food and labor by force;

--although serious complaints were made about Mozambican government soldiers' conduct, these complaints were only three to four percent of those recorded.

Based on our embassies' reporting from the region, we still consider the findings valid.

SENATOR MIKULSKI: A year ago a number of Senators joined Senator Kassebaum in urging the UN Secretary-General to review the situation in Mozambique as a prelude to international action on the problem. Did the UN act on our request?

AMBASSADOR MOORE: The UN Secretary-General sponsored a third annual donors meeting on the emergency situation in Mozambique at UN headquarters in New York on April 13 and 14, 1989. An appeal prepared by the government of Mozambique in collaboration with the United Nations requested food and other relief assistance valued at $361,791,000.

The U.S., which is the single largest donor of assistance to Mozambique, is providing approximately $100 million in food and other assistance in FY 1989.

KHMER ROUGE CAMPS

SENATOR MIKULSKI: In the last nine months, Khmer Rouge authorities have removed more than 17,000 civilians living in Khmer Rouge-controlled refugee camps in Thailand and forced them into military base camps on the border and inside Cambodia. Many are forced to clear minefields and carry ammunition. What steps has the U.S. taken with the Thai government and with the UN Border Relief Operation to provide all civilians in the Khmer Rouge camps with an opportunity to move safely to other camps inside Thailand? What is the status of UN attempts to inspect Khmer Rouge camps?

AMBASSADOR MOORE: The human rights and protection situation in Khmer Rouge camps has been a major focus of U.S. concern. In September 1988, U.S. Embassy refugee section personnel began visiting Democratic Kampuchean (DK) controlled camps to which UNBRO provides assistance.

On the basis of their observations, we have raised our concerns on a number of occasions with senior Thai officials. This issue has also been a major subject in our discussions with UNBRO, the ICRC, and others. The Royal Thai Government (RTG) has responsed by extending deployment of the Displaced Persons Protective Unit (DPPU) to UNBRO-assisted DK camps, effectively increasing RTG support for international and voluntary agencies' activities in the camps. The RTG tells us that it has called in KR authorities and pressed them for greater cooperation with international agencies assisting the camps.

As a result of these efforts there has been an improvement in access to UNBRO-assisted camps. Freedom of movement to non-DK camps has not been fully achieved, due to continued resistance on the part of the DK leadership. The Thai have stated their desire to establish two "Site Eight-like" camps in the northern and southern border areas, to replace existing camps. However, the long record of DK resistance to cooperation with international organizations raises doubts as to how much can be achieved. The DK remains willing and able to forcibly relocate civilian populations to unsafe locations closer to the border, where they are virtually inaccesible to the international community.

KURDISH REFUGEES

SENATOR MIKULSKI: What information does the State Department have on the forced relocation of hundreds of thousands of Iraqi Kurds?

AMBASSADOR MOORE: From the spring of 1987 until the autumn of 1988, the Iraqi government attempted to suppress a Kurdish rebellion by various means including the razing and evacuation of villages suspected of aiding or being of strategic value to the rebels. Approximately 500,000 villagers were forced to leave their homes and were relocated in cities and towns, some of which were newly built settlements in Iraqi Kurdistan. The government campaign culminated in an August 1988 attack on rebel-held areas including the use of chemical weapons which effectively ended the armed rebellion. The United States strongly protested the forcible evacuation of villages and condemned the use of chemical weapons.

There have been rumors over the past two months that the Iraqi government was razing or planning to raze towns near the Iranian border including Qal'at Diza, Raniyeh, and surrounding villages, in order to create a strategic military zone along the border. Despite press reports, as of June 1, we could confirm that these actions had not been carried out. However, in the past few days (June 13, 14) we have received new reports of forced relocations which we are attempting to verify.

SENATOR MIKULSKI: Could you provide details on the reported rejection by Turkey of an $8 million offer by the U.S. for assistance to Kurdish refugees in Turkey, to be administered through the U.N. High Commissioner for Refugees? What other steps are being explored to provide assistance and protection to this refugee population?

AMBASSADOR MOORE: In the fall of 1988, the U.N. High Commissioner for Refugees (UNHCR) asked for contributions toward a donation to the Turkish government to address emergency needs of some 35,000 Iraqi Kurdish refugees in Turkey. The Department advised the UNHCR and the Turkish government that the Bureau for Refugee Programs was prepared to seek $5 million for emergency shelter, medical care and assistance to be administered through the UNHCR for the benefit of the Iraqi Kurdish refugees in Turkey. We advised the Turkish government and UNHCR that this offer was valid through April 30, 1989, and was contingent upon the Turkish government and UNHCR reaching agreement over how funds and the relief were to be channeled and monitored.

UNHCR received commitments from other donors for funds which, including the U.S. offer to seek $5 million, reportedly reached some $15 million. UNHCR notified the Turkish government of the commitment of funds and in mid April sent a senior level team to Turkey to finalize their agreement with the Turkish government.

On April 19, the Turkish government made the decision not to conclude an agreement with the UNHCR and to reject the assistance offered by international donors. It is our understanding that the main reasons for the lack of agreement were Turkey's request that the UNHCR provide funds for long-term housing for the Kurdish refugees and Turkey's view that $15 million was inadequate to address the housing needs.

The UNHCR has advised the Turks that it views the Iraqi Kurds as persons of humanitarian concern to UNHCR and plans to monitor their situation. U.S. diplomatic personnel last visited the camps in March and reported that basic needs are being met but nevertheless international assistance is needed to provide long term care for the refugees and to address special shelter, medical and sanitation needs. Regular visits by American officials to the camps will continue.

PUSHOFFS OF INDOCHINESE BOAT PEOPLE

SENATOR MIKULSKI: On March 14, the six members of ASEAN reaffirmed a commitment to temporary safe haven and humane treatment for all Indochinese asylum seekers. Have Thailand, Malaysia and Indonesia in fact ended pushbacks of Vietnamese boat people and granted international access to new arrivals?

AMBASSADOR MOORE: I am happy to report that Thailand now grants asylum to all boat people who seek to land in Thailand, and that the UNHCR has immediate access to new arrivals to provide for their needs. We have no reports of recent pushbacks from Indonesia. Malaysia has been very generous in providing first asylum to Vietnamese boat people. We have recently heard unconfirmed reports of two recent pushoffs and denial of access by UNHCR to a group of new arrivals in Malaysia. This is not consistent with past Malaysian practice and we are seeking further information.

HONG KONG REFUGEE CAMPS

SENATOR MIKULSKI: What has Hong Kong done to eliminate the overcrowded and unsanitary conditions in its refugee camps?

AMBASSADOR MOORE: Last June (1988), when Hong Kong announced the implementation of a program to determine the status of all new asylum seekers arriving in the colony from Vietnam, it also announced a liberalization of the camps maintained for those designated as refugees (all of those already in Hong Kong, and new arrivals determined to be refugees.) Hong Kong began to implement this pledge by allowing residents of these camps to seek work and schooling in Hong Kong. At the same time, voluntary agencies were allowed to establish social services in the camps for those whose status was not yet determined and for those determined to be illegal immigrants.

Beginning in the spring of 1989, Vietnamese boat people began arriving in unprecedented numbers. Existing facilities have been overwhelmed and conditions have deteriorated. Hong Kong has had to combine the populations of some of the refugee camps in order to make room for new arrivals, disrupting some of the work and schooling programs. The government has not been able to keep up with the inflow and some new arrivals have had to remain on their boats, anchored off a remote island with sparse rations.

UNHCR has issued an appeal for $30 million to assist Hong Kong with its urgent needs to accommodate Vietnamese asylum seekers.

ANTI-PIRACY PROGRAM

SENATOR MIKULSKI: In late March, pirates in the South China Sea massacred 45 Vietnamese boat refugees and kidnapped 11 women. Only two people, an old man and a young boy, are known to have survived this vicious attack. How effective has the UN-funded anti-piracy program been in Thailand in the last 18 months? Have continued pushbacks undermined the credibility of this effort?

AMBASSADOR MOORE: The multilaterally-funded UNHCR/RTG Anti-Piracy Program, since its inception in 1982, has substantially reduced attacks on Vietnamese boat people. In 1981, 77 percent of boats arriving in Thailand and Malaysia were attacked. This rate has decreased steadily to 15 percent in 1986 and 12% in 1987. This trend was reversed in 1988, as the overall attack rate rose to 14 percent. The severity of attacks also appeared to increase. Many of these attacks occurred early in the year, following the imposition of Thailand's policy of pushoffs and redirections. Moreover, in some areas, such as on the South Coast, the attack rate continued to decline.

By the first quarter of 1989, the overall regional attack rate had returned to its downward trend, however, increasing numbers of particularly violent incidents were reported. The Thai government policy of refusing asylum to many Vietnamese boats may well have had an effect on the morale of the police forces engaged in anti-piracy efforts. After several arrests early in the year, the police made no more arrests for acts of piracy until near the end of 1988. Moreover, some Thai fishermen may have incorrectly interpreted the pushbacks as a signal that piracy would be tolerated.

Any apparent contradiction in official Thai policy was clarified on March 14, 1989, when the Royal Thai Goverment, in announcing a cutoff date for the initiation of refugee status determination, also assured that all boat people arriving on its shores would be accorded first asylum.

The anti-piracy program has responded to these developments in several ways. In response to increased attacks on the East Coast, the Royal Thai Marine Police expanded its efforts in this area. The U.S. assisted with the financing of training in investigative techniques. This led to the formation of an investigative task force within the Royal Thai Marine Police, with units in all four coastal sub-divisions.

Despite a hiatus of several months, arrests for 1988 were greater than arrests for 1987 (21 to 18). Several more arrests were made in the first months of this year, including one case in a port city that is a primary center of illegal activity. RTG public education campaigns have helped to increase the number of boats that report having received assistance from fishing vessels (80%).

The focus of the anti-piracy effort is on traditional police work to combat an illegal activity. As with any such activity, complete elimination of the problem is an unrealistic expectation. Continued vigorous and dedicated police work, supported by international assistance and attention, will be required as long as refugee boats present an inviting target to those inclined to exploit them.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

SOVIET REFUGEES

SENATOR D'AMATO: The processing capacity of Rome and Moscow is identified as a bottleneck. How can we in Congress improve that situation?

AMBASSADOR MOORE: The Congress has taken action by supporting the President's proposal for additional refugee admissions numbers. Completion of Congressional action on the Administration's request for $100 million in supplemental funding would enable us to use the additional admissions numbers.

The expansion in April of INS processing capacity in Rome has removed constrictions on Soviet refugee admissions to the U.S. INS now interviews individuals within four days of the submission of their applications. Whatever delays are occuring in Rome are due to difficulties the voluntary agencies are having in preparing cases for presentation to INS or in final processing prior to departure.

There are currently over 27,000 applications on file at Embassy Moscow. The Embassy has been receiving over 3,000 new applications a month. Given the large number of refugee applications from Soviets, it is unlikely that we will be able to eliminate the backlog of uninterviewed refugee status applicants entirely in the near future. The high rate of application and the prospects for continued liberalization of emigration from the Soviet Union mean we will continue to face a large immigration demand for the foreseeable future. The Department and INS seek to increase INS and consular officer and clerical staff at Embassy Moscow over the course of the next several months in order to speed up processing and to reduce the backlog as much as possible.

INS has been operating with two officers over the last quarter and we plan to place an additional four with the necessary support staff in Moscow by the end of the fiscal year. The Administraton is currently examining proposals in this regard.

SENATOR D'AMATO: Your FY90 request anticipates 84,000 refugee admissions. Is the FY90 request adequate to handle the flood of Soviet refugees seeking admission to the U.S.? Do you anticipate an expansion of the overall admissions ceiling, an expansion of the Soviet category at the expense of other categories, or the rejection of applications over the planned 22,500 ceiling for Eastern Europe?

AMBASSADOR MOORE: Our FY90 request would not be adequate to handle Soviet refugee admissions needs if current practices and policies do not change. Pending the outcome of a policy review of this program -- now underway -- we cannot predict what changes may or may not be required in FY90. However, we will be consulting with your committee and other interested Congressional groups in the context of this policy review.

VIETNAMESE REEDUCATION CENTER DETAINEES

SENATOR D'AMATO: What leverage, if any, do we have with the Socialist Republic of Vietnam to prompt the release of reeducation center detainees? Many, if not most, of these internees supported the U.S. Can I assume that no efforts will be made to normalize U.S.-Vietnamese relations until all of these prisoners are released?

AMBASSADOR MOORE: During the just completed International Conference on Indochinese Refugees, in Geneva, the United States and the Socialist Republic of Vietnam (SRV) agreed to resume negotiations on the emigration to the U.S. of reeducation center detainees and their families. The talks, suspended last August by the SRV, will resume in July at a date and place to be determined. The U.S. welcomes the Vietnamese decision to resume discussions on this important humanitarian issue.

For the past seven years, we have worked assiduously to convince the SRV that cooperation on humanitarian concerns (i.e. the release of reeducation center detainees) is in their national interest and that these issues should be addressed regardless of the political differences between our countries. Our policy has been to resist linking the humanitarian and normalization issues so that progress on the former could go forward. The Vietnamese understand that the pace and scope of the normalizaiton process will be influenced by continued progress on this and other humanitarian issues, as in any bilateral issue. The "quid pro quo" for Vietnam's cooperation on our humanitarian agenda has been a pledge that the U.S. will facilitate the efforts of American non-governmental organizations to address Vietnam's humanitarian concerns.

SUBCOMMITTEE RECESS

Senator **Kasten**. This subcommittee will stand in recess until 2 p.m., on Thursday, May 4. At that time we will receive testimony from Assistant Secretary of State for East Asia and the Assistant Administrator of AID for Asia and Near East.

[Whereupon, at 4:10 p.m., Tuesday, May 2, the subcommittee was recessed to reconvene at 2 p.m., Thursday, May 4.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, MAY 4, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Lautenberg, Kasten, and Specter.

DEPARTMENT OF STATE

OFFICE OF THE UNITED NATIONS AMBASSADOR

STATEMENTS OF:

- HON. THOMAS R. PICKERING, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS
- SANDRA L. VOGELGESANG, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS, DEPARTMENT OF STATE

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Good afternoon and welcome, Mr. Ambassador. It is good to see you again. I enjoyed all of our dealings together over the years. You have worn far more hats than I, but you have worn them very, very well, whether in your present position as permanent representative or in past assignments in Central America or Israel. I look forward to working with you and appreciate your being here. Ms. Vogelgesang, of course, I appreciate your being here, also this afternoon.

I will be mercifully brief because I am recovering from a little laryngitis, which for somebody in my line of work is probably the greatest occupational hazard one might have. But take it to your advantage today.

Today, we are going to discuss the administration's budget request for international organizations and programs. We are especially pleased that my good friend, Bob Kasten, is here because he has actually had more experience at this than I and he can take over when my voice goes out.

But before we get into the U.N. programs, I have to raise the outrageous ploy by Yassar Arafat and the PLO in applying, as the so-called state of Palestine, for admission to the World Health Organization, a U.N. specialized agency. I think that move really threatens the work of WHO, an extraordinarily valuable international health agency, and the entire U.N. system of specialized agencies, whose fundings we are discussing here today. I am sure that Bob feels the same way.

The ranking member of this subcommittee, Senator Kasten, and I have introduced legislation to cut off U.S. contributions to WHO or any U.N. agency that accords member state status to the PLO. And I hope, Mr. Ambassador and Secretary Vogelgesang, that the executive branch is going to be able to stop this application.

I am not telling you anything different than I have told the State Department privately, but just so the press and everybody else will know, if the WHO assembly votes in May to grant member-state status to the PLO, the money for WHO will stop as quickly as the Congress can vote out a bill.

Now, let me quickly outline some other subcommittee concerns. Despite administration requests that have often fallen far short of amounts appropriated by Congress in previous years, this subcommittee has done its best to fund the U.N. organizations to the fullest extent possible.

I am concerned the administration has stayed consistent this year and has not requested the appropriate amounts. The total requests for the international organizations program account is $209 million. That is down from $226 million in fiscal year 1989 and $244 million in fiscal year 1988. That is not acceptable.

Take a look at UNICEF. UNICEF works in 118 countries, bringing vaccines and food to millions of malnourished children. Two years ago Congress approved $54 million. Last year it was $60 million. This year the administration asked for $34 million. That is a 45-percent cut.

Now, we will, at a minimum, restore that cut. Then someone in the administration is going to have to ask where that money is going to come from.

The U.N. Development Program coordinates thousands of development projects in the poorest countries. The administration proposes $107 million, down from $111 million in fiscal year 1989. Last year, we gave $9.5 million to the U.N. Environment Program. This year, the administration wants to cut that to $8 million.

I had an interesting meeting this morning with the Prime Minister of Canada. The man is a very close friend and ally of the United States, has a good personal relationship both with President Reagan and President Bush. He said at the meeting, speaking as a friend, that there are a number of areas where the United States must exercise its leadership or lose it to other major nations, and one is in the area of the environment.

Well, with that, I will yield to Senator Kasten.

OPENING REMARKS OF SENATOR KASTEN

Senator KASTEN. Mr. Chairman, thank you. Ambassador Pickering, welcome.

The United Nations and its agencies have endured a number of crises over the last several years, but, unfortunately, at a time when it seems that the U.N. is pulling itself out of a number of these troubles. It is now faced with, perhaps, the most threatening crisis in its history by this move by the PLO to be admitted to the World Health Organization as a member state.

Given the statement made recently by Secretary Baker which I applaud, perhaps I do not need to persuade you that a move to have the PLO admitted to the World Health Organization as a member state would be disastrous, since the administration has made it clear that U.S. funds would be withheld should such an admission be granted.

I want to associate myself with the views of the chairman. Even if the administration was to change its mind, which I know won't happen, the Congress clearly will not allow this to take place. And we would pass legislation as quickly as would be possible.

A number of us visited with the director general of the World Health Organization while he was in Washington this week. And I know he met with a number of people from the administration.

The point I made to him and the point I would like to reinforce is that not only are we in the Congress opposed to membership of the PLO in any United Nations organizations or associated organizations, we are also concerned that any of the debates, the letters going back and forth, the special meetings being held, any such steps along that path serve to increase the credibility of the PLO at a time when it continues to be a dangerous terrorist organization.

Not only do we not want them to be a member of these organizations, we also need the leadership of the various agencies and their affiliated agencies to see that these debates do not even occur. There is no chance that the United States of America will continue to support these organizations if the PLO were to be admitted as a member state, and I think there should be no change in anyone's view or attitude, simply because we are conducting a dialog, a limited dialog, with some members of the PLO in one part of the world.

Mr. Chairman, I have a great deal of respect for Ambassador Pickering. We have worked with him in a number of different ways and I know that we will have a very successful working relationship with the Ambassador.

Senator **Leahy**. Thank you, Bob. I agree. I think all people in the United States are well served and well represented by a man of Ambassador Pickering's background. I am delighted to see the President reach into the career service in that fashion. Mr. Ambassador, it is over to you.

Oh, I am sorry, Arlen. I am not feeling well today and I did not see you come in. I am sorry.

OPENING REMARKS OF SENATOR SPECTER

Senator **Specter**. Thank you, Mr. Chairman. I just have a few comments, and I regret that I cannot stay because of other commitments. But I join my colleagues in welcoming you here, Ambassador Pickering. I, too, have had a long relationship with you and knowledge of your activities and I wanted to be here especially to add my words of welcome, which I have already done privately, and to comment about the issue of the PLO and the World Health Organization.

I feel especially comfortable with you in the U.N. ambassadorial position because of your long tenure in the Middle East and your intimate knowledge of the problems there and your intimate knowledge of the PLO. I was delighted to see the Secretary of State speak forcefully to this issue about the U.S. withdrawal from U.N. specialized agencies in the event that those agencies, which are charged with the responsibility for specific functions, to become involved in a political issue on the PLO.

I associate myself with the remarks of Senator Leahy and Senator Kasten. I would be an original cosponsor of any such bill. When the Secretary of State appeared before this subcommittee a few weeks ago, I expressed my concern about the opening of the dialog, which, of course, was done by Secretary of State Shultz, and about continuing the dialog in the face of the renewed PLO terrorist activities.

There has been a good bit of publicity of what many of us knew to be true regarding the PLO terrorist activities, and about the changes of position which we have seen so frequently with Yassar Arafat and what he has done in the last few days, in France and taking one position and then another position and then a third position, and the dialog, which has been opened by the United States with the PLO, was conditioned specifically on his having accepted longstanding conditions.

And as I said when Secretary of State Baker was here, I questioned whether he had really said the magic words in any serious way with the requirement that he be prompted so many times to do so. And I would hope that the Department of State would reconsider this dialog in the light of what the PLO's true intentions are and what their record is on terrorism. And I just wanted to make that 3-minute statement and join the hearings for this limited purpose. I thank the chairman.

PREPARED STATEMENT OF SENATOR D'AMATO

Senator Leahy. Thank you very much. I will leave the record open for further statements. Ambassador, it is all yours.

[The statement follows:]

Statement of Senator Alfonse D'Amato

Thank you, Mr. Chairman. I want to welcome Ambassador Pickering and Secretary Vogelgesang. I appreciate your appearing this afternoon to testify.

I was very pleased to see that this year's request includes $16 million for the new U.N. Afghanistan emergency trust fund. Having been very active in the cross-border humanitarian assistance program, I am acutely sensitive to the tremendous needs of the Afghan people. I couldn't agree more that now that the Soviets have departed the United States, and the world community, must begin to focus on rebuilding that long suffering nation. I commend you both for your initiative in this area.

I also noted with interest your request of $25.2 million for the International Atomic Energy Agency (IAEA). The proliferation of nuclear, chemical, and biological weapons and the ballistic missiles to carry them poses a tremendous threat to world peace. It is my hope that the IAEA, in cooperation with the less official groups that have sprung up to halt the proliferation of chemical and biological weapons precursors and ballistic missile technology, will receive the fullest support from both the Congress and the administration.

Thank you, Mr. Chairman.

OPENING REMARKS OF AMBASSADOR PICKERING

Ambassador PICKERING. Thank you, Mr. Chairman and members of the committee. I have a statement which I would like to submit for the record, parts of which I would like to summarize for you today.

I would like personally to thank you, Mr. Chairman, and Senators Kasten and Specter, for their kind personal words of welcome. It is a pleasure to appear before you today and I am pleased to be here supporting the President's request for funding of international organizations and programs and to discuss the United States-United Nations relations.

This is a time of change at the United Nations, as you have noted. Peacemaking and peacekeeping activities have advanced over the last several years in ways that, a decade ago, would have seemed impossible. With our active support, the United Nations is shutting down wars, most notably in Afghanistan, between Iran and Iraq, and in Namibia. The Secretary-General is actively involved in finding solutions to disputes in the Western Sahara and Cambodia, and with the five Central American states whose presidents have asked the United Nations for help to verify elements of the Central American peace process, including the nonuse of territory, the cessation of assistance to irregular forces, and the electoral process.

This is also a time of internal reform at the United Nations. Under the leadership of the Secretary-General, progress has been made in reducing employment in the Secretariat; reducing the practice by the Eastern bloc countries of widespread secondment of personnel to the United Nations, which violates the concept of an independent, international, civil service; and the adoption of biennial, consensus-based budgets. More is needed in these and other areas, including the establishment of priorities and the question of overlap and duplication in the area of economic and social activities and their consideration in United Nations fora. As a result of progress in reforms, to which we attach such great importance, and for which we have labored steadily, and here I would like to pay special tribute to a number of Members of Congress and to my two most immediate predecessors, and to encourage further progress, this administration is seeking essentially full funding for its regular assessment and the first installment of arrearages that we owe. Our financial support of a reformed United Nations is crucial, because the potential of the Secretary-General and the Security Council for resolving regional disputes has become a reality.

As regional conflicts become the object of serious negotiation rather than strident debate, I also see the U.N. system focusing more on vital issues of our time: narcotics control, antiterrorism, the state of the world's environment, AIDS, and economic development strategies. The new cooperation between the United States and the Soviet Union, as well as among the five permanent members of the Security Council, also gives promise for renewed progress in tackling these transnational, as well as other, problems.

While this is a remarkably different picture from that of several years ago, there are still difficulties which we will need to face squarely at the United Nations. Efforts continue to address, on a one-sided and negative basis, issues involving the Arab-Israeli peace process and Israel itself. We will need to approach with intelligence, good judgment, wisdom, and fortitude such important issues as our approach to the effort to reform UNESCO and our future role if any there, and to current efforts, to which you have alluded, of the PLO to gain a seat as a state—and I say that within inverted commas—in some or all of the specialized agencies.

Deputy Assistant Secretary Vogelgesang, who has been responsible for the Department's effort on the side of the International Organizations Bureau for dealing with this problem, will comment at greater length in her testimony on the efforts which the administration has been making to deflect the current PLO drive to gain full membership in the World Health Organization.

I should note here that Secretary Baker made it very clear earlier this week that he will recommend to the President that the United States withhold payments to any U.N. agency making any change in the PLO's present status as an observer organization.

In addition, let me turn for a moment to the administration's budget request in support of U.N. voluntary programs. Principal among these are the U.N. Children's Fund and the U.N. Development Program. Both of these organizations are headed by Americans. Both of them are supported by voluntary contributions of the United States. Both of them have conducted with efficiency remarkably important programs in the area of relief and development. Both of them are fully supported by the administration.

My statement contains additional details of our proposals and additional views on the value of these particular organizations. But I would like to summarize in the end by saying that the funds requested for the voluntary agencies are, in our view, the minimum needed to sustain economic and humanitarian programs which provide tangible benefits to the poorest, the most vulnerable developing nations.

PREPARED STATEMENT

Let me assure you that this administration will make every effort to ensure that these funds are not wasted on unnecessary administrative expenses. Working with other donors and management of these organizations, we will continue the successful efforts of the Reagan administration to increase the delivery of quality programs to those most in need. Thank you.

[The statement follows:]

STATEMENT OF AMBASSADOR THOMAS R. PICKERING

I am pleased to appear before you today to support the President's request for funding of international organizations and programs and to discuss US-UN relations. This is a time of change at the United Nations. Peacemaking and peacekeeping activities have advanced over the last several years in ways that a decade ago would have seemed impossible. With our active support, the UN is shutting down wars, most notably in Afghanistan, Iran/Iraq, and Namibia. The Secretary-General is actively involved in finding solutions to disputes in the Western Sahara and Cambodia and five Central American Presidents have asked for UN help to verify elements of the Central American peace process including non-use of territory, cessation of assistance to irregular forces and the electoral process.

This is also a time of internal reform at the United Nations. Under the leadership of the Secretary-General, progress has been made in reducing employment in the Secretariat, reducing the practice by Eastern bloc countries of widespread secondment of personnel to the UN which violates the concept of an independent international civil service, and the adoption of biennial consensus-based budgets. More is needed in these and other areas, including the establishment of priorities and the question of overlap and duplication in the area of economic and social activities. As a result of progress in reforms to which we attach such great importance and for which we have labored steadily, and to encourage further progress, this Administration is seeking essentially full funding for its regular assessment and a first installment of the arrearages that we owe. Our financial support of a

REFORMED UNITED NATIONS IS CRUCIAL BECAUSE THE POTENTIAL OF THE SECRETARY-GENERAL AND THE SECURITY COUNCIL FOR RESOLVING REGIONAL DISPUTES HAS BECOME A REALITY.

AS REGIONAL CONFLICTS BECOME THE OBJECT OF SERIOUS NEGOTIATION RATHER THAN STRIDENT DEBATE, I ALSO SEE THE UNITED NATIONS SYSTEM FOCUSING MORE ON VITAL ISSUES OF OUR TIME--NARCOTICS CONTROL, ANTI-TERRORISM, THE STATE OF THE GLOBAL ENVIRONMENT, AIDS, AND ECONOMIC DEVELOPMENT STRATEGIES. THE NEW COOPERATION BETWEEN THE U.S. AND THE USSR, AS WELL AS AMONG THE FIVE PERMANENT MEMBERS OF THE SECURITY COUNCIL, GIVES PROMISE FOR RENEWED PROGRESS IN TACKLING THESE TRANSNATIONAL PROBLEMS.

WHILE THIS IS A REMARKABLY DIFFERENT PICTURE FROM THAT OF SEVERAL YEARS AGO, THERE ARE STILL DIFFICULTIES WHICH WE WILL NEED TO FACE SQUARELY AT THE UN. EFFORTS CONTINUE TO ADDRESS ON A ONE-SIDED AND NEGATIVE BASIS ISSUES INVOLVING THE ARAB-ISRAELI PEACE PROCESS AND ISRAEL ITSELF. WE WILL NEED TO APPROACH WITH INTELLIGENCE, GOOD JUDGMENT AND WISDOM SUCH IMPORTANT ISSUES AS OUR APPROACH TO THE [redacted] EFFORT TO REFORM UNESCO AND OUR FUTURE ROLE IF ANY THERE, AND THE CURRENT EFFORTS OF THE PLO TO GAIN A SEAT AS A "STATE" IN SOME OR ALL OF THE SPECIALIZED AGENCIES. WHILE I UNDERSTAND THAT MS. VOGELGESANG WILL COMMENT AT GREATER LENGTH ON THE ADMINISTRATION'S EFFORT TO DEFLECT THE CURRENT PLO DRIVE TO GAIN FULL MEMBERSHIP IN THE WHO, I SHOULD NOTE HERE THAT SECRETARY BAKER MADE IT VERY CLEAR EARLIER THIS WEEK THAT HE WILL RECOMMEND TO THE PRESIDENT THAT THE U.S. WITHHOLD PAYMENTS TO ANY UN AGENCY MAKING ANY CHANGE IN THE PLO'S PRESENT STATUS AS AN OBSERVER ORGANIZATION.

Let me turn now to the Administration's budget request in support of United Nations voluntary programs. The President's Fiscal Year 1990 budget request contains $209 million for "International Organizations and Programs" account. This request will fund U.S. voluntary contributions for development, humanitarian and scientific assistance programs and other activities undertaken by the United Nations as well as the Organization of American States.

Given the overall constraints on the Federal budget, our total request is about $17 million less than the appropriation for FY 1989. Within these limits, we have carefully reviewed the activities funded through this account and have recommended funding for 18 organizations and programs. Resources are concentrated among those programs which have long proven their value and directly serve specific U.S. interests. Proposed contributions for the UN Development Program (UNDP), the United Nations Children's Fund (UNICEF) and the International Atomic Energy Agency (IAEA) account for more than three-quarters of the IO&P account request. We also recommend $16 million for the UN Afghanistan Emergency Trust Fund. With the withdrawal of Soviet troops from that country, a major international relief and reconstruction effort is getting underway. The U.S. contribution is a significant component of our overall Afghan strategy. It will allow us to influence the development of relief efforts and encourage contributions from other donor nations.

As the United States Ambassador to the United Nations, my remarks will be directed primarily toward those New York-based UN voluntary agencies for which I am directly responsible.

MEMBERS OF THIS SUBCOMMITTEE ARE WELL AWARE OF THE SIGNIFICANT CONTRIBUTIONS OF THE UNITED NATIONS DEVELOPMENT PROGRAM, OR OF UNICEF TOWARD MEETING THE MASSIVE DEVELOPMENT AND HUMANITARIAN NEEDS OF THE DEVELOPING WORLD. THE U.S. HAS PLAYED A LEADING ROLE IN THE FUNDING AND MANAGEMENT OF THESE PROGRAMS SINCE THEIR INCEPTION AND BOTH AGENCIES ALWAYS HAVE BEEN HEADED BY AMERICANS, AS THEY ARE TODAY. THE ADMINISTRATION'S REQUEST FOR THESE PROGRAMS IS AN EXPRESSION OF OUR SUPPORT TO THOSE UN ORGANIZATIONS WHICH PROVIDE EFFECTIVE AND WORTHWHILE ASSISTANCE TO THE DEVELOPING WORLD AND WHICH SHOW FISCAL RESPONSIBILITY IN THE MANAGEMENT OF THEIR PROGRAMS. THE LEVELS REQUESTED FOR THESE PROGRAMS MUST BE MAINTAINED TO PROVIDE MUCH-NEEDED HELP TO THE WORLD'S POOREST REGIONS, AND TO REFLECT THE LONGSTANDING LEADERSHIP ROLE OF THE UNITED STATES IN THESE EFFORTS.

THE UNDP IS THE MOST IMPORTANT UN AGENCY PROVIDING DEVELOPMENT ASSISTANCE. OVER 50 PERCENT OF THE IO&P ACCOUNT REQUEST - APPROXIMATELY $107.8 MILLION - IS ALLOCATED TO UNDP. OPERATING IN SOME 150 COUNTRIES AND TERRITORIES, IT SPENT NEARLY $1 BILLION LAST YEAR SUPPORTING APPROXIMATELY 5,000 PROJECTS. UNDP PROGRAMS ADDRESS LONG-TERM ECONOMIC AND SOCIAL PROBLEMS AS WELL AS SHORT-TERM EMERGENCY NEEDS. ITS COORDINATING ROLE IN THE UN SYSTEM PERMITS IT TO UNDERTAKE A MULTI-SECTORAL APPROACH TOWARD DEVELOPMENT THAT MAXIMIZES THE IMPACT OF LIMITED RESOURCES. RESOURCES ARE ALLOCATED OVER A WIDE RANGE OF SECTORS - AGRICULTURE, INDUSTRY, ENERGY, COMMUNICATIONS, HEALTH, EDUCATION. RECIPIENT DEVELOPING COUNTRIES ARE REQUIRED TO PROVIDE A SIGNIFICANT PORTION OF PROJECT RESOURCES IN THE FORM OF CASH, SUPPLIES AND SERVICES.

SUPPORT FOR UNDP PROVIDES TANGIBLE BENEFITS TO THE UNITED STATES. BY ITS CONTRIBUTIONS TO THE ECONOMIES AND SOCIETIES OF DEVELOPING NATIONS, IT PROMOTES INTERNATIONAL STABILITY AND HELPS CREATE FAVORABLE CONDITIONS FOR EXPANDED U.S. TRADE AND INVESTMENT. THE U.S. ECONOMY ALSO BENEFITS DIRECTLY FROM UNDP OPERATIONS. FOR EVERY DOLLAR CONTRIBUTED BY THE U.S. IN 1987, THE U.S. RECEIVED APPROXIMATELY $1.86 IN THE FORM OF SALARIES PAID TO U.S. EXPERTS, ORDERS FOR PROJECT EQUIPMENT AND TECHNICAL SERVICES, AND EXPENSES OF UNDP HEADQUARTERS IN NEW YORK.

PERHAPS NO OTHER UN PROGRAM IS BETTER KNOWN AND RESPECTED THAN UNICEF. THIS ORGANIZATION'S APPROACHES ARE CONSISTENT WITH OUR OWN DEVELOPMENT ASSISTANCE AND PRIORITIES AND THE HUMANITARIAN IDEALS OF THE AMERICAN PEOPLE. UNICEF ENCOURAGES AND ASSISTS THE LONG-TERM DEVELOPMENT OF WELFARE OF MOTHERS AND CHILDREN IN 118 DEVELOPING COUNTRIES THROUGH EDUCATIONAL PROGRAMS AND BY PROVIDING GOODS AND SERVICES TO HELP MEET BASIC NEEDS. IT PROVIDES IMPORTANT LEADERSHIP IN THE FIELD OF CHILD SURVIVAL AND DEVELOPMENT, AND HAS REDUCED DRAMATICALLY INFANT AND CHILD MORTALITY RATES IN THESE COUNTRIES. UNICEF'S PROGRAMS OF UNIVERSAL CHILD IMMUNIZATION AND ORAL REHYDRATION THEREAPY HAVE BEEN IMMENSELY SUCCESSFUL. THESE BASIC, LOW-COST HEALTH MEASURES SAVE THE LIVES OF NEARLY ONE MILLION CHILDREN EVERY YEAR.

DUE TO BUDGETARY LIMITATIONS, THE FY 1990 REQUEST IS SOME $26 MILLION LESS THAN THE CURRENT APPROPRIATION. THIS REDUCTION DOES NOT IMPLY ANY CHANGE IN THE ADMINISTRATION'S STRONG SUPPORT FOR THE ORGANIZATION.

INTERNATIONAL ACTION ON THE ENVIRONMENT IS A HIGH PRIORITY FOR THE ADMINISTRATION. CONTRIBUTIONS OF $8 MILLION TO THE UN ENVIRONMENT PROGRAM (UNEP) AND $100,000 TO THE INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC) ARE PROPOSED. UNEP IS PARTICULARLY RESPONSIVE TO U.S. INTERESTS IN PROTECTING THE GLOBAL ENVIRONMENT AND PROMOTING SUSTAINABLE DEVELOPMENT. ITS MULTILATERAL APPROACH INVOLVES BOTH INDUSTRIALIZED AND DEVELOPING COUNTRIES AND PROMOTES COOPERATION ON SUCH PROBLEMS AS ACID RAIN, MARINE POLLUTION, DESERTIFICATION, CARBON DIOXIDE BUILDUP AND OZONE DEPLETION. ESTABLISHED LAST YEAR, THE INTERGOVERNMENTAL PANEL IS EXPECTED TO BECOME THE PRIMARY FORUM FOR ADDRESSING THE GLOBAL PROBLEM OF CLIMATE CHANGE AS A RESULT OF INCREASING CONCENTRATIONS IN THE ATMOSPHERE OF "GREENHOUSE GASES" FROM NATURAL AND MAN-MADE SOURCES. THE U.S. MUST PLAY A LEADING ROLE IN ANY DECISIONS WHICH MAY BE TAKEN IN RESPONSE TO THIS PROBLEM.

THE FUNDS REQUESTED FOR THE VOLUNTARY AGENCIES ARE THE MINIMUM NEEDED TO SUSTAIN ECONOMIC AND HUMANITARIAN PROGRAMS WHICH PROVIDE TANGIBLE BENEFITS TO THE POOREST, MOST VULNERABLE DEVELOPING NATIONS. LET ME ASSURE YOU THAT THIS ADMINISTRATION WILL MAKE EVERY EFFORT TO ENSURE THESE FUNDS ARE NOT WASTED ON UNNECESSARY ADMINISTRATIVE EXPENSES. WORKING WITH OTHER DONORS AND MANAGEMENT OF THE ORGANIZATIONS, WE WILL CONTINUE THE SUCCESSFUL EFFORTS OF THE REAGAN ADMINISTRATION TO INCREASE THE DELIVERY OF QUALITY PROGRAMS TO THOSE MOST IN NEED.

THANK YOU.

INTERNATIONAL ORGANIZATIONS AND GLOBAL PROBLEMS

Senator **Leahy**. Thank you, Mr. Ambassador. As we look at these international organizations like UNDP and UNICEF and so on, do you agree with me that they should deal with problems like the greenhouse effect and overpopulation, global problems involving global solutions; and that these organizations are becoming really more important and not less important?

Ambassador **Pickering**. I would say they are becoming certainly more important. The U.N. Environment Program is an organization I have known since I was Assistant Secretary for Oceans and International Environmental and Scientific Affairs some 8 years ago.

My feeling is that these organizations have an enormous job ahead of them for the next decade. In fact, we may want to look at how and in what way we can strengthen their efforts, as the international community comes together. I certainly hope it will be coming together to deal with the big problems of climate change and the ozone layer.

So these are important organizations, and they deserve our support. I might add at this point that my colleague has a statement which you might want to hear on the PLO issue. In any event, I am always glad to answer your questions and will continue in that line if you would like.

Senator **Leahy**. Eric Newsom just reminded me that Secretary Vogelgesang does have a statement, and again, I apologize. I am not feeling well today. I apologize to you, Madam Secretary. Please go ahead.

OPENING REMARKS OF SANDRA VOGELGESANG

Ms. **Vogelgesang**. Mr. Chairman, no apologies are necessary. We appreciate your interest in getting on quickly with questions and discussion. So what I will do, in deference to that interest, is be brief.

I join Ambassador Pickering in being pleased to appear before you and the members of the committee to present the President's fiscal year 1990 budget request of $209 million for the international organizations and program account, the so-called IO&P account.

With your permission, Mr. Chairman, I will submit for the record a full statement of our budget request. Since we do appreciate fully the strong congressional interest in a political matter which could affect the programs in this voluntary account, and since I would also like to take into account the statements that you and your colleagues have made today, I will turn to addressing that question of the PLO application for membership of the so-called state of Palestine in the World Health Organization.

This matter has been one that has stood as the highest on our agenda in the Bureau of International Organization Affairs for the last few weeks. As you know, we are currently facing a very serious challenge in the World Health Organization, where the PLO, which has observer status, has submitted an application for membership for the state of Palestine.

This application is expected to be considered at the upcoming annual meeting of the WHO, the World Health Assembly, which opens on Monday, May 8. The PLO has also expressed interest in making similar applications in other U.N. agencies. Success in the World Health Organization could well encourage the PLO to do so.

The administration fully appreciates congressional concerns over these developments. I can assure you that we share those concerns. We are engaged in a major effort to head off these attempts, which, if successful, would politicize the specialized agencies of the U.N. system, thus complicating or undercutting their essential, technical work. The application of the PLO would also be seriously detrimental to the search for peace in the Middle East.

U.S. policy in this area is clear. The self-declared Palestinian state, surrounded by quotation marks as the Ambassador noted——

Senator **Leahy**. We will note for the record that each time it comes up, it has automatic quotation marks.

Ms. **Vogelgesang**. I do appreciate that. The Palestinian state, which the United States does not recognize, does not satisfy the generally accepted criteria under international law for statehood, and thus does not qualify for membership in U.N. agencies. The United States is opposed to the introduction of such a divisive, political issue into the technical work of the specialized agencies.

Moreover, we are convinced that any effort to bestow legitimacy on the self-proclaimed Palestinian state would harm efforts underway in the region to promote peace. The Arab-Israeli problem can be resolved only through a process of negotiations between the parties, not through unilateral acts by either side, such as the declaration of Palestinian statehood, that seek to prejudge the outcome of such negotiations.

To emphasize the depth of our concern, the Secretary announced on May 1 that he will recommend to the President that the United States make no further contributions, voluntary or assessed, to any international organization which makes any change in the PLO's present status as an observer organization. This would be a major step, and the Secretary's statement should leave no doubt in others' minds as to how seriously the United States views this issue.

To ensure that our concerns over this issue are clearly understood by others, we have undertaken a series of worldwide demarches in capitals, reinforced by high-level meetings with Embassy representatives in Washington and meetings with permanent representatives to the United Nations in both New York and in Geneva.

We have urged that, at a minimum, some mechanism be found to defer consideration of this application for membership. We just completed useful meetings in Washington, to which you referred, with the WHO Director General Nakajima, who clearly appreciates the potential danger to the World Health Organization posed by the PLO's efforts, and he supports efforts to avoid a vote on this explosive issue or to defer the issue.

We hope that other states will conclude that it would be in the best interests of all if the World Health Assembly were to defer action on the PLO application. I can assure you that we will continue our vigorous efforts to oppose the admission of the self-proclaimed state of Palestine as a member in the World Health Organization or any other organization in the U.N. system.

PREPARED STATEMENT

We appreciate the expressions of congressional support we have received for this policy, including the three statements made this afternoon. Mr. Chairman, that concludes my brief oral statement. I will be pleased to join with Ambassador Pickering in addressing any questions that you and your colleagues may have. Thank you.

[The statement follows:]

STATEMENT OF SANDRA L. VOGELGESANG

I WELCOME THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO PRESENT THE PRESIDENT'S FISCAL YEAR 1990 BUDGET REQUEST OF $209 MILLION FOR THE "INTERNATIONAL ORGANIZATIONS AND PROGRAMS" - OR IO&P - ACCOUNT. THIS REQUEST WILL FUND U.S. VOLUNTARY CONTRIBUTIONS FOR DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ASSISTANCE PROGRAMS AND ACTIVITIES UNDERTAKEN BY THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES.

ACROSS THE U.N. SYSTEM, ITS DEVELOPMENT AND TECHNICAL AGENCIES ARE TAKING STOCK OF PAST ACCOMPLISHMENTS, ASSESSING THEIR CAPACITY AND READYING THEMSELVES TO MEET THE NEEDS OF THE NEW DECADE JUST AHEAD. THE $209 MILLION APPROPRIATION REQUEST BEFORE YOU REFLECTS THREE FACTORS:

1) U.S. SUPPORT FOR INTENSIFIED EFFORTS TO INCREASE THE COHERENCE OF U.N. SYSTEM TECHNICAL ASSISTANCE IN DEVELOPING COUNTRIES PROVIDED BY THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP), THE UNITED NATIONS CHILDREN'S FUND (UNICEF) AND OTHER U.N. AGENCIES;

2) CONTINUED EMPHASIS ON PROGRAMS OF TECHNICAL AGENCIES OF THE U.N. SYSTEM, SUCH AS THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA) AND THE WORLD METEOROLOGICAL ORGANIZATION (WMO), WHICH ADDRESS KEY ISSUES FACING THE UNITED STATES IN AN INCREASINGLY COMPLEX, ECONOMICALLY INTERDEPENDENT AND ENVIRONMENTALLY INTERRELATED WORLD, AND

3) SIZEABLE INVESTMENTS IN THE REHABILITATION AND RECONSTRUCTION OF AFGHANISTAN FOLLOWING A DECADE OF OCCUPATION AND WAR.

THIS REQUEST, LIKE MANY OTHERS PRESENTED TO THIS CONGRESS FOR FY 1990, REFLECTS A BALANCE AMONG DIFFICULT CHOICES. WE

HAVE STRIVEN TO MAKE ROOM FOR NEW INITIATIVES, AND YET MAINTAIN SUPPORT FOR CONTINUING PROGRAMS SUCH AS -- UNDP, UNICEF AND IAEA -- WHICH HAVE LONG SINCE PROVEN THEIR VALUE.

DESPITE OUR CONCERN FOR OBSERVING BUDGETARY RESTRAINT, WE HAVE BEEN ABLE TO INCLUDE TWO NEW LINE ITEMS OF CRITICAL IMPORTANCE TO THE UNITED STATES. THESE ARE $16 MILLION FOR THE UN AFGHANISTAN EMERGENCY TRUST FUND AND $100 THOUSAND FOR THE INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE.

I WOULD LIKE TO TURN NOW TO A MORE SPECIFIC ANALYSIS OF OUR REQUEST.

WE ARE REQUESTING $107.830 MILLION OR OVER FIFTY PERCENT OF OUR TOTAL REQUEST OF $209 MILLION FOR UNDP. THE SIZE OF THE U.S. CONTRIBUTION IS SEEN BY DONORS AND RECIPIENTS ALIKE AS A SIGNAL OF THE VALUE AND CREDIBILITY OF UNDP'S PROGRAMS AND U.S. LEADERSHIP. THE U.S. CONTRIBUTION IS A KEY CATALYST IN ENCOURAGING CONTRIBUTIONS FROM OTHER MEMBERS. THIS ARRANGEMENT GIVES THE U.S. SUBSTANTIAL INFLUENCE OVER A LARGE SHARE OF MULTILATERAL ASSISTANCE AROUND THE WORLD. UNDP HAS TRADITIONALLY RECEIVED THE LARGEST ALLOCATION OF ANY OF THE PROGRAMS IN THE IO & P ACCOUNT, NOT ONLY BECAUSE OF ITS CENTRAL FUNDING ROLE, BUT ALSO BECAUSE OF ITS UNIVERSAL CHARACTER, ITS BROAD GEOGRAPHIC COVERAGE AND OUR FIRM BELIEF THAT UNDP SERVES THE INTERESTS OF THE UNITED STATES. THE ORGANIZATION'S ACTIVITIES ARE NOT TIED TO ANY PARTICULAR SECTOR OF DEVELOPMENT EFFORT. ITS COORDINATING ROLE WITHIN THE UN SYSTEM PERMITS IT TO TACKLE DEVELOPMENT PROBLEMS WITH AN INTEGRATED APPROACH THAT HELPS ASSURE MAXIMUM IMPACT FROM SCARCE RESOURCES.

JOINING WITH OTHER MAJOR WESTERN DONORS, THE UNITED STATES HAS BEEN ENCOURAGING UNDP TO PURSUE KEY MANAGEMENT REFORMS TO IMPROVE ITS PROGRAM AND PROJECT FORMULATION AND ESTABLISH MORE

EFFECTIVE MONITORING AND EVALUATION OF ITS ACTIVITIES. THESE REFORMS WERE BEGUN IN 1985 BY YOUR FORMER COLLEAGUE, BRAD MORSE. HIS SUCCESSOR, ADMINISTRATOR WILLIAM DRAPER, HAS PURSUED THESE MANAGEMENT INITIATIVES VIGOROUSLY.

OVERALL VOLUNTARY CONTRIBUTIONS TO UNDP'S CENTRAL RESOURCES FOR 1989 TOTALED IN EXCESS OF $1 BILLION. 1989 REGISTERED THE LARGEST TOTAL CONTRIBUTION EVER RECORDED FROM ALL DONORS. THE LEVEL OF U.S. FUNDING HAS FALLEN FROM A HIGH OF $165 MILLION IN FY 1985 TO $107.5 MILLION IN FY 1987. OUR REQUEST OF $107.830 FOR FY 1990, ONLY SLIGHTLY LESS THAN THE PREVIOUS YEAR'S REQUEST, REFLECTS PRIMARILY THE OVERALL CONSTRAINTS ON THE FEDERAL BUDGET RATHER THAN ANY DIMINISHED COMMITMENT TO UNDP AND THE FACT THAT UNDP ENJOYS SUFFICIENTLY BROAD SUPPORT FROM KEY DONORS TO PERFORM ITS CRITICAL ROLE IN THE U.N. SYSTEM.

THE SECOND LARGEST ITEM IN OUR REQUEST IS $33.9 MILLION FOR UNICEF. WHILE LESS THAN THE AMOUNT APPROPRIATED BY CONGRESS LAST YEAR, IT IS NEARLY A SIX PERCENT INCREASE OVER OUR FY 1989 REQUEST. THIS LEVEL REFLECTS THE HARD CHOICES WE HAD TO MAKE IN BALANCING OUR INTERESTS IN THE PROGRAMS OF THE IO&P ACCOUNT AGAINST THE BUDGETARY CONSTRAINTS UNDER WHICH WE MUST OPERATE.

UNICEF WORKS CLOSELY WITH THE GOVERNMENTS OF DEVELOPING COUNTRIES IN THEIR EFFORTS TO IMPROVE THE WELFARE OF CHILDREN AND MOTHERS AND TO ENABLE CHILDREN TO DEVELOP THEIR FULL MENTAL AND PHYSICAL POTENTIAL. UNICEF FOCUSES PARTICULAR ATTENTION ON THE LEAST DEVELOPED COUNTRIES AND THE MAJOR CAUSES OF DEATH AND DISEASE AMONG CHILDREN UNDER FIVE. IT COMPLEMENTS AND REINFORCES U.S. BILATERAL ASSISTANCE PROGRAMS SUCH AS A.I.D.'S CHILD SURVIVAL FUND.

MORE THAN MOST PROGRAMS IN THE UN SYSTEM, UNICEF HAS EARNED THE CONFIDENCE AND ADMIRATION OF THE AMERICAN PEOPLE AND CONGRESS. IT HAS BEEN IMMENSELY SUCCESSFUL IN REDUCING

DRAMATICALLY INFANT AND CHILD MORTALITY RATES IN DEVELOPING COUNTRIES. THE BEST-KNOWN APPROACH HAS BEEN THROUGH WELL PUBLICIZED MASS CHILDHOOD IMMUNIZATION AND ORAL REHYDRATION THERAPY (ORT) CAMPAIGNS.

THE 1989 STATE OF THE WORLD'S CHILDREN REPORT ESTIMATES THAT THESE BASIC, LOW-COST HEALTH INTERVENTIONS SAVE THE LIVES OF NEARLY ONE MILLION CHILDREN EVERY YEAR. 1990, THE TARGET DATE FOR ATTAINING THE WORLD HEALTH ORGANIZATION'S GOALS OF UNIVERSAL CHILDHOOD IMMUNIZATION AND ORT APPLICATION, IS FAST APPROACHING. TO COME AS CLOSE AS POSSIBLE TO ACHIEVING THAT GOAL AND TO SUSTAIN THE MOMENTUM OF THESE VITALLY IMPORTANT ACTIVITIES WELL INTO THE NEXT DECADE, UNICEF NEEDS THE CONTINUED, STRONG SUPPORT OF THE UNITED STATES.

THE THIRD LARGEST ITEM IN OUR REQUEST IS $25.2 MILLION FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA). HISTORICALLY, THE UNITED STATES HAS BEEN A STRONG SUPPORTER OF IAEA AND ITS SAFEGUARDS SYSTEM, WHICH SERVE CRITICAL U.S. SECURITY AND NON-PROLIFERATION INTERESTS. IN HIS ADDRESS TO CONGRESS ON FEBRUARY 9, PRESIDENT BUSH PLEDGED TO "STRENGTHEN THE HAND" OF THE IAEA AS A CENTRAL PART OF THE ADMINISTRATION'S EFFORTS TO HALT THE SPREAD OF NUCLEAR WEAPONS. A SIGNIFICANT PORTION OF THE U.S. VOLUNTARY CONTRIBUTION TO THE IAEA ACCOMPLISHES THIS PURPOSE BY PROVIDING DIRECT SUPPORT TO THE IAEA SAFEGUARDS SYSTEM. IT ASSURES THAT NUCLEAR MATERIAL, INTENDED FOR PEACEFUL PURPOSES, IS NOT DIVERTED FOR MILITARY USE. U.S. FUNDS DESIGNATED FOR SAFEGUARDS AND NON-PROLIFERATION SUPPORT RESEARCH AND DEVELOPMENT ACTIVITIES AT U.S. LABORATORIES AND THE PROVISION OF U.S. EXPERTS' SERVICES TO THE IAEA SAFEGUARDS DEPARTMENT.

IN ADDITION, THE U.S. VOLUNTARY CONTRIBUTION TO THE IAEA SUPPORTS THE IAEA TECHNICAL COOPERATION PROGRAM, WHICH ENABLES

MANY DEVELOPING STATES TO SECURE -- IN A SAFE MANNER -- THE BENEFITS OF THE PEACEFUL ATOM FOR THE PROMOTION OF AGRICULTURE, HUMAN HEALTH, INDUSTRY, AND ENERGY PRODUCTION. AS WITH FUNDS DESIGNATED FOR SAFEGUARDS ACTIVITIES, A SIGNIFICANT PORTION OF U.S. FUNDS SUPPORTING IAEA TECHNICAL ASSISTANCE WILL BE EXPENDED IN THE UNITED STATES -- AT LABORATORIES AND UNIVERSITIES, AND IN THE COMMERCIAL SECTOR.

WE HAVE PROPOSED $16 MILLION IN SUPPORT OF THE UN AFGHANISTAN EMERGENCY TRUST FUND. WITH THE RECENT WITHDRAWAL OF SOVIET TROOPS FROM AFGHANISTAN AFTER NEARLY NINE YEARS OF BRUTAL OCCUPATION, A MAJOR INTERNATIONAL RELIEF EFFORT MUST BE UNDERTAKEN TO ASSIST THE FIVE MILLION AFGHAN REFUGEES AND TWO MILLION INTERNALLY DISPLACED AFGHANS IN RETURNING TO THEIR HOMES. THIS MOVEMENT WILL REPRESENT THE LARGEST MIGRATION OF PEOPLE SINCE WORLD WAR II.

WE WILL CONTINUE OUR BILATERAL CROSS-BORDER HUMANITARIAN ASSISTANCE, BUT THE ENORMITY OF THE PROBLEM AND THE DEMANDS FOR EXPERTISE, EXPERIENCE AND FUNDS COMPEL AN INTERNATIONAL RESPONSE. THE UN AND ITS TECHNICAL AND DEVELOPMENT AGENCIES, IF FULLY AND EFFECTIVELY MANAGED AND COORDINATED, HAVE THE CAPACITY TO LEAD THIS EFFORT. WE ARE WORKING DIRECTLY WITH THE UN AGENCIES AND THE UN COORDINATOR FOR HUMANITARIAN AID TO AFGHANISTAN TO HELP THE UN EFFORT REALIZE ITS POTENTIAL AND PERFORM THE MASSIVE TASK REQUIRED OF IT.

THE COORDINATED UN PROGRAM WILL PROVIDE THE AFGHAN REFUGEES AND DISPLACED PERSONS WITH EMERGENCY SUPPLIES NEEDED TO RESTORE THEIR FIELDS AND VILLAGES AND BEGIN AGAIN TO FEED THEMSELVES. IT WILL SUPPORT BASIC HEALTH CARE. OVER TIME, IT WILL HELP THE AFGHANS BEGIN TO RECONSTRUCT THEIR LOCAL AREAS AND ULTIMATELY THEIR COUNTRY. THE PROGRAM WILL BE DECENTRALIZED AND GEARED TO

PROVIDE ASSISTANCE DIRECTLY TO THE AFGHAN PEOPLE, NOT THROUGH THE ILLEGITIMATE KABUL REGIME.

THE UNITED STATES HAS A MAJOR STAKE IN HELPING THE AFGHANS WIN THE PEACE NOW THAT THEY, WITH OUR HELP, HAVE WON THE WAR. THE PERMANENT RETURN OF THE AFGHAN REFUGEES AND DISPLACED PERSONS WILL BE A FORCE FOR STABILITY IN THEIR COUNTRY AND THROUGHOUT THE SOUTH ASIAN REGION. THE U.S. CONTRIBUTION TO THE EMERGENCY TRUST FUND IS A SIGNIFICANT COMPONENT OF OUR OVERALL AFGHAN STRATEGY. IT WILL ALLOW US TO INFLUENCE SIGNIFICANTLY THE DIRECTION OF THE UN EFFORT AND ENCOURAGE OTHER DONOR STATES TO CONTRIBUTE SUBSTANTIALLY TO THE TRUST FUND AS WELL.

THE $10 MILLION LEVEL OF OUR CONTRIBUTION TO THE DEVELOPMENT ASSISTANCE PROGRAMS OF THE ORGANIZATION OF AMERICAN STATES (OAS) REPRESENTS OUR COMMITMENT TO THE INTER-AMERICAN SYSTEM AND OUR BELIEF THAT OAS TECHNICAL COOPERATION ACTIVITIES FILL AN IMPORTANT DEVELOPMENT NEED NOT MET BY OTHER PROGRAMS. SPECIFIC ACTIVITIES INCLUDE: BASIC EDUCATION AND EDUCATION FOR WORK; EMPLOYMENT GENERATION AND SMALL BUSINESS PROMOTION; BIOTECHNOLOGY AS APPLIED TO FOOD; ENVIRONMENT AND NATURAL RESOURCES; TRADE INFORMATION AND TELECOMMUNICATIONS DEVELOPMENT; AND DEVELOPMENT AND APPLICATION OF MATERIALS TECHNOLOGY.

U.S. VOLUNTARY CONTRIBUTIONS SERVE AS AN IMPORTANT CATALYST TO GENERATE EXTERNAL RESOURCES FOR THE OAS FROM THE PRIVATE SECTOR, MULTILATERAL INSTITUTIONS AND NON-MEMBER COUNTRIES. THEY ALSO PLAY AN IMPORTANT ROLE IN FOSTERING INTER-AMERICAN COOPERATION FOR DEVELOPMENT, AND ENHANCE THE U.S. ABILITY TO WORK WITH OAS MEMBERS ON PROGRAMS OF MUTUAL INTEREST.

OUR REQUEST FOR $8 MILLION FOR THE UN ENVIRONMENT PROGRAM REPRESENTS A $1.2 MILLION INCREASE OVER OUR FY 1989 REQUEST. IT INCLUDES $7.7 MILLION TO BE CONTRIBUTED TO UNEP'S ENVIRONMENT FUND AND AN ESTIMATED $300,000 FOR MULTILATERAL ENVIRONMENTALLY-RELATED ACTIVITIES SUCH AS THE VIENNA CONVENTION FOR THE PROTECTION OF THE OZONE LAYER AND THE CARTAGENA CONVENTION FOR THE PROTECTION AND DEVELOPMENT OF THE MARINE ENVIRONMENT OF THE WIDER CARIBBEAN REGION AND RELATED PROTOCOLS. UNEP'S ACTIVITIES COMPLEMENT THE EFFORTS OF THE UNITED STATES TO IMPROVE OUR OWN ENVIRONMENT. UNEP'S MULTILATERAL APPROACH ENGAGES BOTH INDUSTRIALIZED AND DEVELOPING COUNTRIES AND PROMOTES COOPERATION ON REGIONAL PROBLEMS SUCH AS CLIMATE CHANGE, MARINE POLLUTION, AND DESERTIFICATION.

THE REQUEST FOR $2 MILLION FOR INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC) ENABLES THE U.S. TO SUPPORT EDUCATIONAL, SCIENTIFIC, CULTURAL AND COMMUNICATION ACTIVITIES THAT DIRECTLY BENEFIT U.S. INTERESTS. THESE BENEFITS WERE FORMERLY DERIVED THROUGH MEMBERSHIP IN UNESCO. PROGRAMS SUCH AS THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION, THE MAN AND THE BIOSPHERE PROGRAM, THE INTERNATIONAL HYDROLOGICAL PROGRAM AND THE INTERNATIONAL GEOLOGICAL CORRELATION PROGRAM ARE ALL ACTIVELY SUPPORTED BY THE U.S. AND WE HAVE A CONTINUING INTEREST IN THE WORK THEY DO.

THE WORLD METEOROLOGICAL ORGANIZATION'S VOLUNTARY COOPERATION PROGRAM PROVIDES TRAINING AND EQUIPMENT TO HELP LESS DEVELOPED COUNTRIES IMPROVE THEIR NATIONAL METEOROLOGICAL AND HYDROLOGICAL SERVICES. U.S. SUPPORT FOR THIS PROGRAM ENABLES THE U.S. TO RECEIVE MORE TIMELY AND RELIABLE DATA FOR THE U.S. NATIONAL METEOROLOGICAL CENTER, AND INTERNATIONAL METEOROLOGICAL REPORTS WHICH ARE USED BY THE U.S. PUBLIC AND

PRIVATE SECTORS. WE ARE REQUESTING $2.0 MILLION FOR FY 1990 TO SUPPORT THE WORK OF THIS PROGRAM.

THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF) PROVIDES GRANT CAPITAL ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES FOR PROJECTS THAT ARE TOO SMALL TO BE CONSIDERED BY OTHER MULTILATERAL FINANCING INSTITUTIONS. OUR REQUEST OF $1.5 MILLION WILL ENABLE THE UNCDF TO CONTINUE TO FOCUS ON THE POOREST PEOPLE AT THE GRASSROOTS WITH LABORERS, SMALL FARMERS, THE UNEMPLOYED AND OTHER GROUPS IN NEED OF SMALL AMOUNTS OF CAPITAL, WHETHER FOR A WATER PUMP, FOOT BRIDGE OR FERTILIZER AND SEEDS.

THE UNITED NATIONS EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA (UNETPSA) IS DESIGNED TO PROVIDE EDUCATION ANDTRAINING TO STUDENTS FROM SOUTH AFRICA AND NAMIBIA WHO ARE DENIED THESE OPPORTUNITIES IN THEIR OWN COUNTRIES. OUR REQUEST OF $800 THOUSAND FOR THIS PROGRAM WILL SERVE TO DEMONSTRATE U.S. SUPPORT FOR THE ASPIRATIONS OF THESE YOUNG PEOPLE AS THEY DEVELOP SKILLS THAT ARE NECESSARY TO ASSUME LEADERSHIP ROLES IN THEIR SOCIETIES.

PROMOTION OF PRIVATE SECTOR DEVELOPMENT IS A MAJOR U.S. PRIORITY BOTH IN INTERNATIONAL ORGANIZATION AFFAIRS AND IN DEVELOPMENT ASSISTANCE. OUR REQUEST OF $500 THOUSAND TO FUND THE UN INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO) INVESTMENT PROMOTION OFFICE (IPS) IN WASHINGTON, D.C WILL CONTRIBUTE TO ACCOMPLISHING THIS OBJECTIVE. THE WASHINGTON IPS OFFICE MATCHES U.S. BUSINESS ORGANIZATIONS WITH INDUSTRIAL INVESTMENT OPPORTUNITIES IN DEVELOPING COUNTRIES, RESULTING IN JOINT VENTURES BETWEEN THE TWO PARTIES. THE U.S. PARTIES TO JOINT VENTURES HAVE UNLIMITED OPPORTUNITIES TO CONTRIBUTE RESOURCES TO THE PROJECTS, EARN LONG-TERM RETURNS ON THEIR INVESTMENTS, AND SIMULTANEOUSLY DEVELOP NEW MARKETS IN BOTH DEVELOPING AND

DEVELOPED COUNTRIES. THE SOLE FUNDING SOURCE FOR FY 1990 IS OUR VOLUNTARY CONTRIBUTION FROM THIS ACCOUNT.

THE UNITED NATIONS TRUST FUND FOR SOUTH AFRICA (UNTFSA) PROVIDES HUMANITARIAN ASSISTANCE TO VICTIMS OF APARTHEID AND RACIAL DISCRIMINATION IN SOUTH AFRICA AND NAMIBIA. OUR REQUEST OF $250 THOUSAND TO PROVIDE ASSISTANCE TO BLACK SOUTH AFRICANS PERSECUTED UNDER EXISTING REPRESSIVE LEGISLATION DEMONSTRATES U.S. COMMITMENT TO THE CAUSE OF FREEDOM, JUSTICE AND EQUALITY IN SOUTH AFRICA AND NAMBIA.

OUR CONTRIBUTION OF $220 THOUSAND TO THE UNITED NATIONS DEVELOPMENT FUND FOR WOMEN (UNIFEM) WILL ENCOURAGE THE INTEGRATION OF WOMEN AS VITAL PARTICIPANTS IN THE PROCESS OF ECONOMIC AND SOCIAL DEVELOPMENT. WOMEN IN DEVELOPING COUNTRIES HAVE TOO OFTEN BEEN CONSIDERED MAINLY MARGINAL TO THE ESSENTIAL PROCESSES OF DEVELOPMENT.

THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES OF WILD FLORA AND FAUNA (CITES) PROVIDES A MECHANISM FOR PROTECTION OF ENDANGERED SPECIES OF WILDLIFE AND PLANTS AGAINST OVER-EXPLOITATION THROUGH INTERNATIONAL TRADE. OUR REQUEST OF $200 THOUSAND FOR THE CITES TRUST FUND WILL SUPPORT MEETINGS OF PARTIES TO THE CONVENTION AND CERTAIN OPERATIONS OF THE SECRETARIAT.

THE UNITED NATIONS FELLOWSHIP PROGRAM (UNFP) IS DESIGNED TO COMPENSATE U.S. FEDERAL AGENCIES FOR THE ADMINISTRATIVE COSTS INCURRED IN ARRANGING AND MONITORING TRAINING FUNDED BY UN SYSTEM AGENCIES IN THE AMOUNT OF $6 MILLION. OUR REQUEST INCLUDES $200 THOUSAND FOR THIS PROGRAM FOR FISCAL YEAR 1990.

THE CONVENTION CONCERNING THE PROTECTION OF THE WORLD CULTURAL AND NATURAL HERITAGE (CONVENTION) OFFICIALLY

DESIGNATES, AS OUTSTANDING AND IRREPLACEABLE, PROPERTIES OF INTERNATIONAL SIGNIFICANCE. THROUGH THE WORLD HERITAGE FUND, THE CONVENTION PROVIDES FINANCIAL ASSISTANCE TO NATIONS TO PROTECT THESE UNIVERSALLY ACCLAIMED NATURAL AND CULTURAL SITES FROM DETERIORATION AND DESTRUCTION. THE REQUEST FOR $200 THOUSAND WILL ENABLE THE UNITED STATES TO CONTINUE TO INFLUENCE THE ALLOCATION OF THE FUND TO PROJECTS OF IMPORTANCE TO U.S. POLICIES AND PROGRAMS.

OUR CONTRIBUTION OF $100 THOUSAND TO THE UNITED NATIONS VOLUNTARY FUND FOR VICTIMS OF TORTURE (UNVFVT) FURTHERS OUR MULTILATERAL HUMAN RIGHTS OBJECTIVES IN THE UN HUMAN RIGHTS COMMISSION AND SUPPLEMENTS U.S. BILATERAL HUMAN RIGHTS EFFORTS. THE FUND'S MAJOR GOAL IS TO PROVIDE MEDICAL AND PSYCHOLOGICAL ASSISTANCE TO VICTIMS AND THEIR FAMILIES.

IFAD IS RECOGNIZED AS AN EFFECTIVE DEVELOPMENT ASSISTANCE PROGRAM. WE HAVE NOT REQUESTED ANY FUNDING FOR IFAD IN FISCAL YEAR 1990 BECAUSE NEGOTIATIONS FOR IFAD'S THIRD REPLENISHMENT ARE STILL UNDERWAY. WHEN THE CURRENT NEGOTIATIONS ARE CONCLUDED AND A SATISFACTORY AGREEMENT IS REACHED, WE INTEND TO REQUEST FUNDING WITHIN EXISTING RESOURCE LEVELS.

THE FINAL ITEM IS OUR $100 THOUSAND REQUEST FOR THE INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPPC). THE IPCC WAS ESTABLISHED IN 1988 TO PROVIDE AN INTERNATIONAL FORUM TO ANALYZE AND RESPOND TO THE GROWING CHANGES IN THE EARTH'S ATMOSPHERE AS A RESULT OF NATURAL AND MAN-MADE CHEMICALS. AS ONE OF THE COUNTRIES LIKELY TO BE MOST AFFECTED BY CLIMATE CHANGE AND BY DECISIONS AS TO THE MANNER IN WHICH TO RESPOND TO THIS GLOBAL PROBLEM, THE UNITED STATES MUST PLAY A LEADING ROLE IN THE DETERMINATION OF THOSE DECISIONS.

OUR TOTAL REQUEST IS A LITTLE OVER $17 MILLION LESS THAN THAT APPROPRIATED FOR FY 1989. OVERALL MONETARY CONSTRAINTS ON THE FEDERAL BUDGET, HAVE FORCED US TO CONFINE THE REQUEST WITHIN THESE LIMITS. WE HAVE REVIEWED THE PROGRAMS AND RESOURCE SITUATION OF THESE AGENCIES AND BELIEVE THAT THESE REQUESTS ARE APPROPRIATE TO THEIR PRESENT SITUATION.

IN CONCLUSION, I WOULD LIKE TO MENTION THAT, AS WE PARTICIPATE IN THE UN SYSTEM OVER THE NEXT DECADE - FOR EXAMPLE, WITH UNICEF AND UNDP IN SHAPING THE DIRECTION THEIR PROGRAMS WILL TAKE - WE WILL DO SO ON A SOLID BASIS OF MANAGERIAL IMPROVEMENTS.

WE WILL ALSO SHAPE THE DIRECTION OF THE UN SYSTEM AGENCIES THAT STRIVE TO ELIMINATE WORLD POVERTY, HUNGER AND INADEQUATE HEALTH CARE IN THE DEVELOPING WORLD WITHIN A FRAMEWORK OF BROAD DONOR CONSENSUS. WE WILL, IN THIS EFFORT, FOCUS ON THE NEED TO TAKE A NEW LOOK AT THE RELATIONSHIPS AMONG THE PARTNERS IN THE SYSTEM, TO ASSURE THAT THEY REINFORCE EACH OTHER AND BUILD ON INHERENT STRENGTHS. AS A BASIC POLICY, WE CONTINUE TO SUPPORT UNDP'S CENTRAL FUNDING AND COORDINATING ROLE. WITH OTHER MAJOR DONORS, WE WILL SEEK AN IMPROVED DIVISION OF LABOR BETWEEN UNDP AND THE TECHNICAL AND SPECIALIZED AGENCIES OF THE U.N. SYSTEM WHICH REFLECTS INCREASED EMPHASIS ON BUILDING INSTITUTIONAL CAPACITY OF DEVELOPING COUNTRIES AND TRANSFERRING SPECIFIC TECHNICAL KNOWLEDGE.

OUR GOALS MAY SOUND LOFTY. HOWEVER, WE BELIEVE THAT, THROUGH HARD WORK AND A SINCERE COMMITMENT TO MULTILATERALISM, WE CAN SUCCEED.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED STATEMENT. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU OR THE COMMITTEE MAY HAVE.

PLO APPLICATION

Senator **Leahy**. Thank you, Madam Secretary.

Let me ask you both—and start with Ambassador Pickering—can you tell Senator Kasten and myself what is being done in New York to stop the PLO application? Is the Secretary-General involved? Does he know what is going to happen? I talked to Dr. Nakajima, the Director General of WHO, just the other day. He obviously is not the person who can stop it. He is sort of caught between a rock and hard place, but, what is going on up there in New York?

Ambassador **Pickering**. Quite a few things. I have been in direct touch with the Secretary-General, both before and after his recent trip to Europe, on a number of occasions. I have spoken to him very clearly about our deep concerns about the problems that this kind of a step would cause.

He is fully aware of it. He, too, has been in touch during his trip in Geneva with the major heads of U.N. agencies including Director General Nakajima. It is clear that the United Nations' legal view with respect to a state is precisely the same as our own, that a state has to have territory with recognized boundaries, that it has to have a population and it has to have a government, that those are the attributes under international law of a state, that they continue.

In addition to that, we are remaining in close touch because our objective continues to be to get the withdrawal of this application for membership or its deferral or postponement. We are working in many ways to do that. He is intimately involved in the process. He understands the difficulties that it would cause, and, obviously, if I go beyond where I am now and talk about the specific steps, then we will clearly be tipping our hand to the people whose objective it is to try to find out in advance what we are doing and where we are going.

I want to add to that, however, that, in the course of the last 1½ weeks, I have probably met, on a bilateral basis, with between 15 and 20 permanent representatives of other States. Many of them do not necessarily share our view about the PLO, but, interestingly enough, they share our deep concern about the tremendous difficulty that this step on the part of the PLO, which I have termed ill-timed and ill-considered, is going to cause to the international organization, to the U.N. system, and to everybody involved. It will also hinder the tremendous efforts that this administration is making to deal with the Middle East peace process, where its entry as a state in a specialized agency is an intrusion, in my view, into the peace process and the negotiating process in a way, I think, that is highly unfavorable to its smooth continuation.

As a result, we have clearly told them we object, in very strong terms, to that step being taken for that particular point alone.

I would say that there is unease, deep unease in New York, at what is going on, and deep concern. This is not limited solely to our friends in Western Europe or other areas, and people are struggling for a way to deal effectively with this problem. This is turned around, I would think, from what it was a couple of weeks ago.

But it is your stand, it is the knowledge we have of your views here, it is the statement of the Secretary, it is the kind of legislative steps that you are clearly prepared to take that are enormously useful in our efforts in New York to bring home to the Secretary-General, to Director General Nakajima, and to others, including the permanent representatives in New York of the influential and important states in the U.N. system, to bring home to them the hard realities of what a mistaken step this would be and how really disastrous it would be for the continued function of the U.N. system and for our role in the peace process and, indeed, in my own view, for continuing to make progress in that very important part of our foreign policy.

Senator LEAHY. This afternoon, Senators Kasten, Simon, Heinz, and I introduced a sense of the Senate resolution that would be on the budget. It says that if the PLO is admitted the money will stop. I suspect that the measure will easily pass. If it is possible to have more than 100 Senators vote, they would, but we have not quite figured out how to do that yet, but it will be unanimous. There will not be any Senator voting against it.

Madam Secretary, did you want to add anything to that?

Ms. VOGELGESANG. I would reaffirm the points made by Ambassador Pickering and simply underscore that there have been comparable efforts in Geneva with the heads of the U.N. organizations there and with the other permanent representatives. We have found, I would also note that the fact that there is such strong political sentiment on Capitol Hill, reflected in the Secretary's statement, to be enormously helpful in underscoring the depth of U.S. concern about the PLO application.

Senator LEAHY. Well, of course, that is one of the reasons we have made the expressions we have. We have tried to point out this is not a Republican or Democratic issue; it unites conservatives, liberals, moderates, everybody else, and we would hope that everybody would understand. I am glad you are—as I fully expected you would—getting the word out.

FISCAL YEAR 1990 BUDGET REQUEST

In response to my earlier question, we were discussing international organizations, talking about global warming and other global problems and their importance. Mr. Ambassador, your statement mentions the administration's sincere commitment to multilateralism. But the budget shows a 7.6-percent cut. Is that the kind of commitment that we should be showing?

Ambassador PICKERING. I would like to say this, that those calculations of cuts, if I am not mistaken, have to do with, in fact, the action the Congress took in the past years, not the relationship between the several administration's submissions last year and this year.

Nevertheless, the administration has, after very careful consideration under very tough circumstances—you are more aware than I am of the budget deficit problems—come back with a figure, which, I believe, represents a slight increase over what the administration asked last year.

It believes that this is the best it can do under very tough and straitened circumstances, and, as a result, you have a continued commitment, in my view, to these organizations to the extent that it is possible to do that in the light of the pressures on the budget as the administration has seen them.

UNICEF

Senator **Leahy**. Well, in line with the tough budget, your statement says UNICEF has earned the confidence and admiration of the American people. It has been immensely successful in dramatically reducing infant and child mortality rates in developing countries. Having said that in your statement, I do not envy you having to be up here at the same time to ask us to cut UNICEF by 45 percent. I cannot believe you really want us to do that.

And, I just wonder if this is not some convenient way for the administration to show that they saved $30 million, knowing that we, in the Congress, are going to try to take care of UNICEF. Because it will be up to us to find the money for it. There is an old saying that one should always fear getting their wishes. I mean, I do not know if the administration would like it if we actually pass the budget you have recommended to us.

Ambassador **Pickering**. Clearly, we are behind the budget we recommended. Again, I would point out that the figures we have asked for, and compared with what we asked for last year, continue to show our strong support for the organization. Obviously, if we could have all of our wishes on all of the budget items, we would have an entirely different budget, but we would have an entirely different projection of the deficit.

I think we are trying to advance a set of very positive and supportive budgetary proposals in light of what we feel are the enormous pressures on the budget itself, and, clearly, in the past, the Congress has worked its own will on these efforts. Here, those budget decisions on the part of the Congress in the past have been accepted by the administration, but I am here to support, as you know, loyally and faithfully, the administration's proposals to you.

At the same time, I want to emphasize that all of us who are associated in New York with UNICEF and with the UNDP think that they do marvelous work. If I had my own personal way, I would try to find a way to get more contributions for both of those organizations, but as a disciplined representative of the administration, I am here supporting a budget.

Senator **Leahy**. Well, as a practical matter, are other countries going to pick up the slack if we actually make these cuts?

Ambassador **Pickering**. Well, again, I do not term them cuts. Nevertheless, this is the best we can do under the circumstances. I would hope other countries would do more. We have continually been the biggest donor in both of these organizations for a long period of time and then some. As you know, both of these organizations are highly thought of.

UNICEF, in fact, is probably one organization that still spends a good bit of time and its effort raising its own funds on a private basis, and, in fact, I was, two mornings ago, in a meeting in UNICEF working with them on their very, very important program of Sudan relief. So I am intimately and immediately impressed by the value of what they do. I think you are right, in a sense, that they are organizations worthy of full support.

CONVENTION ON GLOBAL WARMING

Senator **Leahy**. Next week, this subcommittee is going to hold a joint hearing with the Agriculture Committee on the implications of global warming for the Third World. The United States now chairs the Response Strategy Working Group of the Intergovernmental Panel on Climate Change that is also looking at this problem. The strategy group is meeting next week in Geneva, and one of the topics is going to be a convention on global warming.

I am told that Secretary Baker supports such a convention, but the White House has not made a decision yet. Will a decision be made by next week, do you know?

Ambassador **Pickering**. I cannot answer that question, but Sandy may have the answer.

Senator **Leahy**. Secretary Vogelgesang.

Ms. **Vogelgesang**. We appreciate your raising that question. You are quite right, the Response Strategies Working Group, which is a subgroup of the Intergovernmental Panel on Climate Change, will be convening this next week, and our delegation will be headed by OES Assistant Secretary, Dr. Fred Bernthal.

We have work underway in four areas: Energy, agriculture, coastal zones, and resource management. But we also hope to be exploring a possible framework convention in the area of climate change. As you appreciate, as one particularly knowledgeable in this area, there is a great deal of research and study to be done.

So part of what we are trying to assure is that we have the fullest grasp of the data available before moving into formal conventions that might require the establishment of new institutions or any mandatory standards. We want the proper work to be done well by the U.S. Government and others before moving to that stage. But we take the point of your interest and we will convey that to the State Department.

Senator **Leahy**. I appreciate that very much, Madam Secretary. I have a number of additional questions for you and the Ambassador, but, I must admit my voice is finally giving out. I am going to turn it over to a more experienced hand. Besides, with the respect I have for both of you, I am not going to have to be my usual feisty cross-examiner type anyway. Bob, it is all yours, and I apologize for leaving. I know that both of you will be most successful, and I know that if I have further questions, I can pick up the phone and just call you up.

Ambassador **Pickering**. Any time.

Senator **Leahy**. Thank you.

Ms. **Vogelgesang**. Hope you feel better.

Ambassador **Pickering**. Thank you, and I hope your voice is better in the near future.

Senator **Leahy**. Thank you.

Senator **Kasten** [presiding]. Mr. Chairman, thank you. First of all, I want to associate myself with the views of the chairman with regard to UNICEF and UNDP. We go through this back and forth every year, when the administration's request purposely underfunds programs they know the committees support. At some point, the money comes from somewhere. It is a frustrating exercise.

PLO APPLICATION TO WORLD HEALTH ORGANIZATION

Mr. Ambassador, do you agree that if the United Nations were to admit the PLO as a member state, then, under that precedent, or if the World Health Organization, then, under that precedent, basically any organization which could gather enough votes could become a member state?

In other words, you were talking about your deliberations with some of your colleagues in New York. My guess is that all of them could imagine some group of people or some organization or whatever that, for political purposes, might, on a given day at a given time, be able to get a majority of the votes.

But the fact is, I mean, this would open the floodgates, not just for the PLO and particular problems right now, but the basic structure of the United Nations.

Ambassador PICKERING. Senator, I think you are right. I think if we drop or skew or change or reinterpret the legal definition of a state, then any country around the world which has within in a group which would seek to declare itself independent or separate or some way or other, and we can think of a lot of them, could consider itself a state. In the People's Republic of China, they have such groups; in the Soviet Union, they have such groups, in other countries around the world they have such groups.

This is a powerful argument. It is an argument we can use in our diplomatic contacts, and, indeed, do use, that suddenly somebody could constitute themselves if they could get the votes. Presumably, the votes become the only test. The idea of statehood is meaningless, then. It is vitiated. Then they can declare themselves—and then I think, if you fill the United Nations with voting members who do not represent anything but self-declared organizations which pretend to be states, you have, in a sense, a complete change in the system.

I think it adds a sense of disrespect for the system and for its potentialities that is serious and threatening. One can only let one's imagination run here. Suppose you got a majority of these people in, and then they got more people in. Well, you know what we would be up against.

We hope it never happens. We do not see any reason why it should happen, and it is another reason why we are opposed to the effort now being made in the present case of the PLO to try to come in under that line.

CUTTING OFF FUNDS TO U.N. ORGANIZATIONS

Senator KASTEN. I do not know which of you I should address this question to, but, if it were to take place, that the PLO is successful in its efforts to join the World Health Organization, it would seem to me that we ought to be prepared to cut off the money. With regard to the U.N. population programs a couple of years ago, we cut off the funds to China because we were opposed to their forced sterilization and abortion policies.

But at the same time, we, as a country, and we as a committee wanted to indicate our continued support for population planning programs. So we cut off the funds to the United Nations, and those funds went to other population planning activities across the world in ways that were acceptable to the committee and to our administration.

The World Health Organization is involved in a number of programs, including AIDS programs, that have strong support here and in the executive branch.

Have you considered to what other organizations we may be able to steer money now going to the World Health Organization so that we will demonstrate both our opposition to allowing the PLO to become a member state and our still-continued support for a number of WHO programs and activities?

Ambassador PICKERING. I might make a few general remarks and then maybe Deputy Assistant Secretary Vogelgesang will have some more areas of detail because this is an area in which she works, I think, more intensively than I do.

My feeling is that we have, in statements from the podium at the State Department, made clear that we are prepared to consider this particular question in response to the well-known complaints or concerns that the World Health Organization is doing an important job. I believe it is, and that the programs that you mentioned in particular are important, but there are others, in malaria and river blindness and other such issues, that are also extremely important, and we ought to try to find ways to fund them.

Now, I am not sure that we have advanced the process to the point where we have studied the actual alternatives and are prepared to make proposals, but maybe I could turn the question over and see if Sandy has any thoughts along those lines or anything else to add.

Ms. VOGELGESANG. I would emphasize two points. First of all, as Ambassador Pickering has suggested, we are putting our primary emphasis, round-the-clock emphasis, now, on defeating the PLO application, or finding a way, if we must and are not able to find a realistic prospect of defeating it, for deferring that issue.

So our primary emphasis now, quite frankly, is on that effort. And we are not spending a great bulk of our time looking at alternatives. We are trying to win this battle for the sake of the World Health Organization, the health of the rest of the U.N. system, and the Middle East peace process.

That said, a second point I would note is that we believe very strongly that the PLO, by its action, has, in a very callous way, placed its own parochial interests above those of the international community, and particularly in the case of dealing effectively with the global pandemic of AIDS and the vital work done by the major killers of children, childhood diseases. So we are trying our best to assure that that attempt by the PLO is defeated.

SECONDMENT REFORMS

Senator KASTEN. Thank you. Mr. Ambassador, you talked about reforms and you indicate in your statement that progress has been made on secondment. Now, we have had discussions with previous ambassadors about this issue, and sometimes they have mixed secondment and housing. What kinds of progress have been made on secondment?

Ambassador PICKERING. Senator, first, let me assure you, I know about secondment, and, unfortunately, I know about housing and I will not mix the two. On secondment——

Senator KASTEN. I think people knew about housing and about secondment before also.

Ambassador PICKERING. If you would like to invite a statement on housing, I am ready. Let me just focus a bit on secondment. I think, very simply, the advance has been the acceptance in principle by the Soviet Union of the fact that they will move away from secondment. And the advance has been important in principle, but we are still waiting for the follow-through.

As you know, as of a couple of weeks ago, in fact, three individuals were actually moved from secondment into permanent contracts. I am just told that six more have been accepted and that they will shortly move and that the United Nations will continue in its effort to shift more of these people as soon as that can be done, from secondment to long-term contracts, which continues to be our objective.

Senator KASTEN. I am not going to debate with you here, but I will pursue this for the record because it is the key issue as far as this committee is concerned, with regard to the reforms.

I know that they have made reforms in terms of personnel; they actually exceeded those goals. They are also saying the right things in the Budget Committees, but we will wait and see how that works out.

Now you say the progress is primarily of that kind; they are saying the right things about secondment and you might have one or two examples. But we need a definition of what a long-term contract is, and we could argue back and forth about that.

I want you to be aware, as the State Department is aware, of Congress' strong interest in this area. We are tired of the smoke and mirrors in these reports which abscure the basic issue, which is, we want to get rid of secondment. We do not want to phase it out, we just want to stop it. I know that is your position and I hope we can work together.

U.N. ENVIRONMENT PROGRAM

I want to talk for a moment about the U.N. Environment Program [UNEP] the environmental group. Last year, we considered how U.S. contributions to UNEP could be used. During the process of looking into UNEP, we discovered that they run on a biennial budget which makes it difficult to internally redirect their resources.

We believe that some positive changes at UNEP are being made, but we are concerned that they have not gone as far as they could. We are concerned about inadequate leadership from UNEP on global warming, for example, and a number of other important, international issues.

We are going to have to deal with some of these issues through international groups like UNEP. There are a number of problems like global warming that threaten our very existence and require the work of an organization that is a tough, efficient, and capable organization. I do not think that anyone would describe UNEP in that way at this point.

What are you doing to promote budgetary reform at UNEP and to place increased priority on programs like global warming, to which I referred, in terms of where they direct their technical assistance and their time and their effort?

Ms. **Vogelgesang**. In the case of the U.N. Environment Program, as elsewhere in the U.N. system, the administration has identified, as a major priority, emphasis on program budget reform, including specifying clear prioritization of programs. There is not enough money to go around to cover all needs, particularly in the area of environment, which you and your colleagues have underscored as a major concern around the world.

Second, we recognize the kinds of particular concerns that the Congress has noted over the course of the last year or so. We have made a point of underscoring those kinds of priorities for UNEP and I would note that, in addition to underscoring them there, we have done so also in other organizations where we address environmental concerns. For example, the World Meteorological Organization based in Geneva—for example, the U.N. Development Program based in New York, where over 20 percent of the programs have to do with environmental emphasis.

We have also addressed environmental concerns in the IPCC, the Intergovernmental Panel on Climate Change. We have made a point of being in the vanguard in establishing that panel as a way to draw upon the resources of both UNEP and the WMO so that we assure the priority emphasis which we know that you and your colleagues have regarding the issue of climate change.

We are, as you also noted, the chairman of the key subgroup for that panel, the response strategies working group. We hope, via that vehicle and by our work at the upcoming governing council of UNEP, which will take place in Nairobi later this month, to underscore your concerns. If there are other particular issues you would like us to underscore, Senator Kasten, we would appreciate knowing those.

Senator **Kasten**. This is an issue of interest to the committee. It is one on which I think we agree and we want to work with you and monitor the progress and the direction.

U.N. SYSTEM OF NATIONAL ACCOUNTS

I am told that every 20 years, Mr. Ambassador, the United Nations revises its system of national accounts and that those revisions are being made now. Is that correct?

Ambassador **Pickering**. We are not aware of it. We were giving the answer for the record. But why do you not go ahead with your question.

Senator **Kasten**. The concept is one that I brought up with AID and it is one that I just want to discuss with you for 2 or 3 minutes.

I am concerned that current accounting practices do not accurately measure actual economic growth, particularly for resource-based economies. The consumption of nonrenewable resources is not recognized right now by the process. We have got the same problem at AID.

Now, there are examples—Indonesia would be one; the Philippines are another good example. They have had very strong economic growth. Their GNP has gone from $32 billion in 1984 to $38 billion last year. That sounds good, but when you look a little more closely behind these figures, we end up in trouble.

Philippine economic development is based largely on resource extraction. For example, the Filipinos are cutting their forests at an unprecedented rate. Their soils are being washed away or used for other purposes. There are a number of productive fisheries in the Philippines but they are being decimated because of dynamite fishing, using poisons to fish, and other abusive fishing practices.

In short, the percentage rise in GNP looks great, but the resource base is clearly being destroyed. There ought to be a way to figure out how many small businesses are part of this GNP figure, as opposed to how many trees we destroy, or how many fish we kill, or even how much coal we mine.

This committee is interested in working that concept into some of the thinking we are doing, both at AID and in other places at the State Department. If, in fact, there is a revision going on in the system of national accounts at the United Nations, I would want to work with you to express these thoughts in U.N. figures, and maybe we could work in other organizations with you and John Bolton and others. Do you have any comment on what I have said?

Ambassador PICKERING. I understand what you are saying. I think you make a fair point. We would want to look at it. The U.N. Statistical Office is probably the area which does the national accounts and so we will take your message back, if we can and speak with them, see where they are headed and try to give you a report in response to this question, as a follow up to what you have had to say.

[The information follows:]

AGENCY RESPONSE TO QUESTION ON NATIONAL ACCOUNTS

The methodology for calculating National Accounts is reviewed and revised periodically by the United Nations Statistical Commission. The current revision exercise began in 1986 and will not be completed until 1991.

As part of the current exercise, the Statistical Commission and the U.N. Statistical Office (a part of the Secretariat of the United Nations) are devoting much attention to the field of Environmental Statistics, which covers the concerns contained in Senator Kasten's statement. In its most recent report, the Statistical Commission included the following language:

"The need to develop statistics that described the interactions between environmental concerns and socio-economic growth and development was stressed by the Commission. General support was expressed for efforts aimed at the integration of environmental issues into the framework of the System of National Accounts by means of environmental issues satellite accounts. The Commission attached high priority to that program and welcomed the joint efforts of the United Nations Environment Program (UNEP), the World Bank and the Statistical Office of the United Nations Secretariat regarding the development of a framework for environmental satellite accounting.

"The need to further extend the dialog between statisticians, national accountants, resource economists and environmentalists in that field of work was stressed. The Commission was pleased to learn that the Statistical Office was able to secure extra budgetary resources to develop the first draft of an environmental accounting handbook. The representative of the World Bank indicated the Bank's intention to test the methodologies on environmental accounting in case studies of country applications."

Questions related to the depletion of natural resources and the effects thereof on national accounts are thus being considered by the United Nations in the current review and revision of its statistical methodology. The United States Delegation will follow the progress of this exercise and will keep the Committee informed of developments.

Ambassador PICKERING. Sandy, do you have anything you want to add?

Ms. VOGELGESANG. No; you have addressed the main point.

Senator KASTEN. There are a number of environmental groups like the World Resources Institute which have been working with us on this basic concept. It is one which is very, very important and if we could devise a new way of figuring economies—real strength of an economy as opposed to resource extraction—it would be a step, I think a very positive step, in the right direction.

I have some other questions which I will submit for the record. I too have a scheduling problem so I am going to excuse myself and turn the Chair over to the Senator from New Jersey, Mr. Lautenberg.

Senator LAUTENBERG [presiding]. Thank you very much, Bob. It is nice to see you here, Mr. Ambassador. I want you to know, Senator Kasten, that Mr. Pickering is a New Jersey product as well. We raise them tough, we raise them lean, and we raise them mean and we hope that the Ambassador, who I think is appearing for the first time since confirmation before a committee—the second time, OK, you remember—that we are going to be able to be lean, mean, and tough.

PLO APPLICATION TO WORLD HEALTH ORGANIZATION

If the PLO wins membership in the WHO it would automatically be entitled to membership in the World Intellectual Property Organization, the U.N. Industrial Development Organization, and it is likely that the PLO would also apply to the International Telecommunications Union for membership there as well.

I want to associate myself with comments I heard that were made by Senator Leahy, Senator Kasten, and Senator Specter about taking a very hard line here because I think that this would be literally the hole in the dyke as we know it. If we fail to prevent PLO from joining the WHO, what is the long-term strategy for fighting their other efforts to penetrate United Nations' organizational structure?

Ambassador PICKERING. Thank you, Senator, and I am delighted to be lean, mean, and tough and from New Jersey before you today and I agree with you on the approach to this particular issue. I hope at the same time that as we go through, aside from this issue, you can be kinder and gentler on our budget as you move ahead.

The strategy for the future is obviously very clearly to fight this every inch of the way. That is very clear from Secretary Baker's statement. I think that we enjoy an enormous amount of bipartisanship and unanimity at both ends of the avenue, so to speak, on this issue and I think we will continue to approach it very much in that same vein.

Priority No. 1 is the withdrawal or the postponement of this particular application in the World Health Organization. But priority No. 1 becomes—whatever organization this comes into—and priority No. 1 remains defeating this process to achieve narrow advantages at the expense of a lot of very important and useful international projects and work—I think a real disdain for the international community in that sense, and to turn the technical agencies of the United Nations—in every way devoted, I think, to the greater good of mankind—into political fora to boost narrow advantages which do not achieve anything.

So it is ill-considered and ill-timed and I think ill-conceived in every sense of the word and that will continue to be our strategy. The statement that the Secretary made on Monday pointedly did not limit itself solely to one agency. It was clearly a statement pointed at all agencies and all organizations, if you like, in which this problem might appear.

Senator LAUTENBERG. I heard the statement just that way. You are the person on the front line there and I just wanted to have a chance for the record to reflect your own support of that.

Now I wonder if you could tell me what we have said to the PLO about the consequence of pursuing their application to join the World Health Organization? What level has that been communicated at and what kind of response have we gotten from them?

Ambassador PICKERING. I would say without going into all the details of our confidential conversations that we have said to them what I have been saying here in public very clearly, but with much more in the way of detail, about our concern.

We have made it clear, the consequences of this, including the consequences that might befall the dialog if they are not prepared to understand very clearly what the interests of the world, of the peace process, and the continuing strengthening of the U.N. system require.

Senator LAUTENBERG. Based on what you have just said, perhaps this question once again is emphasis, rather than policy and that is, will the administration favor cutting off that dialog with the PLO if the cutoff of funding to WHO, other agencies that accept the PLO, does not work as a deterrent?

Ambassador PICKERING. I would not want to, from this platform, either prefigure precisely our strategy, because the effectiveness of that strategy is in our being able to maintain that secret. But I would not want to prefigure the fact that we would rule out any particular steps. They are all under consideration. They are all being looked at.

But I can tell you that decisions will have to be made under the time and the circumstances where the administration thinks they can be strategically most effective in dealing with these problems, so the worst thing anybody could conclude is that we have sat here and begun to rule out options as we go ahead. I think everybody should consider, as they always do, that all options are open until the President or the Secretary want to declare them ruled out.

Senator LAUTENBERG. What options might we have available if we are not ruling out those—and I hear you very clearly. What options could be considered? Is there anything you can think of that we could discuss here that might be there for us to choose, if the other things do not work?

Ambassador **PICKERING**. Well, I think we then would be jumping into speculation and the hypothetical. Usually, those are the kinds of questions we are trained to avoid. But let me, under this particular set of circumstances at least——

Senator **LAUTENBERG**. Just between us.

Ambassador **PICKERING**. Nobody here but us private conversers. I would say that you have to, in a sense let your imagination run, but you can think of other options. You mentioned one yourself. Whether we would continue to stay in or out of an organization would at least be one that you would not want to foreclose. It might go one way, it might go another way.

I think the critical question is the funding and that we declared ourselves and that is very, very important. We have said things about our continued role in organizations in another set of circumstances, which is, in fact, the mirror image.

Should states, unfairly in our view, seek to change the universality of membership rule, particularly with respect to Israel? That is very clear. That is on the record. One could not ignore that particular stand in another case, but it is quite analogous here.

But I can assure you that the decisions, as far as I know, have not been made. They will have to be made, but none of us can sit up here at the table talking to you today and say we have ruled out all of those options. That is not the case.

U.N. VOTING REPORT

Senator **LAUTENBERG**. Well, I am left with the Chair, left with the gavel and since we are going to—oh, I am sorry. I do have another—I have a question that was requested of me by Senator Kennedy in a little bit of detail here, so just give me a second.

As you know, Congressman Solarz and others introduced an amendment on the U.N. voting report in the House, which essentially was the same legislation that had been previously introduced here by Senator Kennedy and others. The important difference in the Solarz amendment is that it would allow for the continuation of the use of voting coincidence scores.

It has been noted by experts at the United Nations that these scores are derived by a methodology which is certifiably invalid. Ambassador Walters, your predecessor, expressed problems with the methodology and the majority of the academics solicited by the State Department say that there is no methodological value in these scores and you noted during your confirmation that these scores cannot be compared within one report, let alone over several years.

Senator Kennedy's legislation would eliminate the use of voting coincidence scores. Given all that we know about the inaccuracy of the methodology and the misleading information which it generates, would it not be in the best interest of our efforts at the United Nations and would it not be in the best interests of accurate reporting to the Congress, to just eliminate—strike out those scores?

Ambassador **Pickering**. That is an interesting and important question and one in which I would have to, at this stage probably give you my own personal views as the U.S. Representative to the United Nations, and here I would say we have continued to make clear what we think about the inadequacies of the present reporting format.

As you know, Senator, Congressman Solarz and I believe with the cooperation of Senator Kasten, has introduced a bill which would include two kinds of reports, those with the so-called coincidence figures and those containing the proposal which Senator Kennedy in the past had made for a broader, perhaps fuller and more understandable kind of report.

At this stage, it is my understanding that the administration on the combined bill has said that if it meets the desires of both Senator Kasten and Congressman Solarz, I would say, in a personal aside, that is an unusual and tough combination to beat. We would not try to go out and beat it.

I would say, over the long term, the voting coincidence scores, if they are important to some people, as long as individuals understand their inadequacies—that they do not have a statistical basis and a statistical continuity as far as I can see, and they are, in fact, compilations of information that do not add up to what they purport to add up to—but if people still would like to have that in the report, I am for an open air policy. Let every voice be heard and let the chips fall where they may.

I suspect with the new reporting format, as it goes ahead, people will have a chance to taste and compare and see where this really comes out and if that is the way in which we, in a sense, get to a better realization of what the real record is, I am not opposed to it on a personal basis and we should go ahead that way even though, as you know, I have been very clear in my statement, as indeed my predecessor has, on what we feel are the inadequacies of the present limited report.

So I guess in this one I would have to say, the more the merrier and let us see where it goes and if that is the case, as we go along, maybe over the long term people will express a clear preference up here and elsewhere. But that I think is your prerogative.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Lautenberg**. We will let Senator Kasten know of the Ambassador's comments, since it is the Kasten-Solarz team.

Mr. Ambassador, once again we thank you. We are going to leave the record open for questions that may be submitted in writing and we are going to recess this subcommittee subject to the call of the Chair. We thank you all.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

UNDP

Senator Leahy: The Administration's Congressional Presentation Document strongly endorses the activities of UNDP, UNICEF, UNEP and the CITES. For each of these organizations or programs please answer the following questions:

How would you assess the quality of management of their programs?

How would you assess their use of funds, both program funds and operating expenses? Are you aware of instances of mismanagement, misuse or waste of funds?

Ambassador Pickering: Quality of Management. I would judge UNDP program management as being of a generally high quality. A recent review of UNDP field operations by USAID offices revealed a generally positive assessment of UNDP project management.

As the central funding and coordinating body for the UN system of operational activities, UNDP operates under the concept of tripartite cooperation among UNDP, the recipient governments and the executing agencies, i.e., the UN specialized agencies, regional economic commissions, UN Department of Technical Cooperation, et al. All three partners share responsibility for the success of the program and projects which UNDP funds. By nature, technical assistance projects tend to be small and labor-intensive, rather than capital intensive. About 64 percent of UNDP's program funds are allocated to the least developed countries, which have weak infrastructures, and lower development potential and implementing capacity. There are inherent limitations in this system in which responsibility is shared, the type of projects are particularly difficult, and the recipient countries are the least developed.

An important aspect of UNDP's program management is how it reviews project and program proposals formulated by the executing agencies and how it holds them accountable for performance. In 1985, UNDP conducted an in-depth study of agency performance and instituted a number of reforms designed to ensure improved quality of project formulation, greater responsiveness of its field operations, a streamlined system of appraisal, and improved and coordinated system project evaluation.

The Governing Council at its 36th session (June 1989) instructed UNDP to negotiate standard basic agreements with the executing agencies in order to improve agency accountability.

Use of Funds. The auditor's reports of UNDP have contained no instances of mismanagement, misuse or waste of funds. However, it should be noted that while the UN Board of Auditors audits UNDP annually, some of the executing agencies have biennial audit cycles, and therefore some UNDP-funded program expenditures have not been fully audited. The 36th Governing Council (June 1989) has recommended that UNDP's financial statements be audited biennially in order to achieve concordance with the executing agencies. Annual management reports would still be made.

The Auditors have reported expenditures charged to programs which in their view should have been charged to the administrative budget. The U.S. has continued to urge UNDP to clarify administrative and project expenditures.

UNICEF

Senator Leahy: The Administration's Congressional Presentation Document strongly endorses the activities of UNDP, UNICEF, UNEP and the CITES. For each of these organizations or programs please answer the following questions:

How would you assess the quality of management of their programs?

How would you assess their use of funds, both program funds and operating expenses? Are you aware of instances of mismanagment, misuse or waste of funds?

Ambassador Pickering: UNICEF has long enjoyed a reputation for effective and efficient program implementation and management. We would join with other donors and recipient governments in giving UNICEF generally high marks for its efforts and activities on behalf of children. UNICEF Executive Director since 1980, James ("Jim") Grant (a U.S. citizen) is a dynamic leader and effective fund-raiser, who heads a dedicated and professional staff. The U.S. is pleased that after consultations with the Executive Board, the UN Secretary General in April announced his decision to extend Grant's tenure until December, 1994.

At the same time, as with any program, there is room for improvement, particularly in terms of ensuring the long-term sustainability of its programs. UNICEF has taken actions to correct and improve financial and budgetary practices for which it was criticized by the UN Board of Auditors and others in the mid-1980s. A new financial manager is in place, and recent UN reports on UNICEF's administrative and financial operations cited no major areas of waste, fraud or abuse.

The 41-country UNICEF Executive Board, of which the U.S. is a member, provides guidance to, and oversight of, UNICEF and its operations. The Board has long maintained an apolitical tradition and its practice of consensus-based decisions continues to prevail. The Board also continues to play an increasing role in shaping UNICEF's program activities and in guiding and monitoring the financial aspects of UNICEF's operations.

Management of UNEP

Senator Leahy: The Administration's Congressional Presentation Document strongly endorses the activities of UNDP, UNICEF, UNEP and the CITES. For each of these organizations or programs please answer the following questions:

How would you assess the quality of management of their programs?

How would you assess their use of funds, both program funds and operating expenses? Are you aware of instances of mismanagement, misuse or waste of funds?

Ambassador Pickering: UNEP has consistently maintained an acceptable level of efficiency and effectiveness in the management of its activities. The organization adequately controls the execution of its budget, its financial reserves, and the trust funds which it administers. Its financial rules and regulations, including its system of internal controls, biennial auditing by the UN Board of Auditors, and oversight by its Governing Council on which the U.S. is represented, provides a reasonable framework for financial management and accountability. We are not aware of any instances of waste, fraud or abuse.

A recent GAO study essentially confirmed these views. For the future, we intend to intensify our interaction with UNEP to ensure receipt of even more complete and timely information about UNEP's plans and activities. This should be useful as we begin to consider possible ways to strengthen or enhance international environmental activities.

Management of CITES

Senator Leahy: The Administration's Congressional Presentation Document strongly endorses the activities of UNDP, UNICEF, UNEP and the CITES. For each of these organizations or programs please answer the following questions:

How would you assess the quality of management of their programs?

How would you assess their use of funds, both program funds and operating expenses? Are you aware of instances of mismanagement, misuse or waste of funds?

Ambassador Pickering: The CITES Secretariat became administratively and financially autonomous in 1985, and shortly thereafter experienced some serious financial reverses due to adverse exchange rate developments and limitations in contributions from states party to the Convention. There was no question of mismanagement, or misuse or waste of funds. In order to maintain the minimum personnel complement necessary to implement the Convention, the Secretariat was forced to accept temporary financial support from UNEP. In general, we believe that the Secretariat weathered an unavoidable spell of stormy weather fairly well, and we expect to see that it maintains course and stays on an even keel now that the initial turbulence is behind it.

UNDP

Senator Leahy: For UNDP, what would be the effects of Congress appropriating $120 million for FY 90, rather than the $107 million requested by the Administration? Could UNDP use these additional funds effectively? Are there new programs underway, or new initiatives contemplated, for which UNDP could effectively use these additional funds?

Ambassador Pickering: Due to the depreciation of the U.S. dollar against other currencies, the mid-term review of resources for the fourth programming cycle (1987-1991) indicated $676 million additional beyond anticipated and programmed resources for the cycle. These resources have been allocated for country programs and special centrally controlled programs and are being released in a phased distribution over the period of the cycle. UNDP resources, therefore, are more than adequate to carry out its program for the coming year.

UNICEF

Senator Leahy: For UNICEF, what would be the effect of a reduction in the U.S. contribution from the $60 million appropriated by Congress in FY 89 to the $34 million requested by the Administration for FY 90? Which UNICEF activities would most likely be reduced or eliminated? If Congress were to appropriate $65 millon for UNICEF in FY 90, could these additional funds be used effectively? How?

Ambassador Pickering: The U.S. voluntary contribution goes into UNICEF's general resources account, along with similar contributions from other governmental and non-governmental donors. UNICEF has been attracting increased funding from other donor governments, as well as through national committee activities, and its greeting card operation, and it would be difficult to determine the specific impact of a reduction in the U.S. voluntary contribution for UNICEF on its programs. It is very unlikely that any program would be eliminated. Since UNICEF also receives special purpose funding from some governments and organizations, programs may not be reduced.

Were the Congress to appropriate the $33.9 million the Adminstration has requested for UNICEF in FY 90, the U.S. probably would no longer be the top contributor to UNICEF's general resources account, since Nordic countries are increasing their contributions. However, as we have noted, the decision on the Administration's request for FY 90 was made solely within the context of all the other claims on the budget and the availability of resources. It should not be construed as a dimunition of the Administration's unflagging support for UNICEF.

Were the Congress to appropriate funding for UNICEF at the level of $65 million -- a level above the Administration's request -- we believe that these funds could be used effectively in accordance with the medium-term plan and programs approved by the UNICEF Executive Board at its April 1990 meeting. The plan inter alia calls for continued efforts to: reduce maternal, infant and child mortality; improve the nutritional status of mothers and children; empower parents with knowledge of the most serious health problems of women and children and actions that can be taken to overcome them; provide safe and adequate water supplies and better sanitation; and improvement in the role and participation of women in development.

Funding for CITES

Senator Leahy: For the Convention on International Trade in Endangered Species, what would be the effects of a reduction in funding from $650,000 to $200,000, as proposed by the Administration? What activities might have to be reduced or eliminated?

Ambassador Pickering: The Administration believes that its requested level of support for CITES is a fair U.S. share of the total funding needed to maintain basic operations of the Secretariat which implements the Convention. These basic activities include core funding for the Ivory Quota Control Unit, which is largely supported by external -- including U.S. -- funding, and ongoing studies to evaluate trade in potentially endangered species. This basic level of funding would also support required meetings of the parties to the Convention.

Funding for the World Food Program

Senator Leahy: In FY 89 the US contribution to the World Food Program was US dollars 980,000. The same was true in FY 88. The Administration has not requested any funds for FY 90. Why? What will be the likely effects of this cut in funding?

Ambassador Pickering: The U.S. contributes food commodities and transport subsidies to WFP under PL-480. In FY 1988 they were worth approximately US dollars 234.5 million. No funds were requested for a contribution to WFP's administrative budget because, given other U.S. budgetary requirements, the Administration believes that other countries, which do not have commodities to contribute, should meet WFP's cash requirements for administrative costs. We do not believe this will have an adverse effect on WFP operations.

IAEA: Justification for Increase

Senator Leahy: You have proposed a $3 million increase in funding for the IAEA. What new initiatives justify this increase? Who are the other major donors to the IAEA, and how much do they contribute?

Ambassador Pickering: Increased funding is being requested in order to provide, inter alia, additional support to IAEA safeguards and other non-proliferation activities, the IAEA technical cooperation program, and in-kind technical assistance to countries party to the Nuclear Non-Proliferation Treaty (NPT).

Specifically, the Program of Technical Assistance to Safeguards (POTAS) will undertake, with FY 1990 funds, important work to develop a next generation computerized safeguards information system for the IAEA. The Agency's present system -- which is now over a decade old -- is an integral part of the safeguards program, ensuring accurate accounting of nuclear materials and quality control in the safeguards system. FY 1990 funds will also be utilized to support implementation of state-of-the-art video surveillance and sealing technologies as part of the IAEA safeguards program. In his address to the Congress last February, President Bush expressed an intent to "strengthen the hand of the IAEA" in preventing nuclear proliferation. Enhanced IAEA safeguards are fundamental to this effort.

In addition to providing improved support to IAEA-related safeguards initiatives, increased funding for the U.S. voluntary contribution to the IAEA will promote expanded technical cooperation with NPT parties. The U.S. voluntary contribution has, historically, served as a means to provide in-kind project assistance and training to NPT parties, thus fulfilling the U.S. commitment to peaceful nuclear cooperation, under Article IV of the Non-Proliferation Treaty. The ability of the United States to establish a clear record of cooperation with Treaty parties will be an essential component in U.S. efforts to promote a successful NPT Review Conference in 1990, and also in 1995, when parties will determine whether to continue the Treaty in force indefinitely or for a fixed period of time.

Finally, a significant portion of the $3.2 million increase being requested for FY'90 will meet U.S. obligations to the IAEA Technical Assistance and Cooperation Fund (TACF). Although contributions to the Fund are voluntary, members are expected to contribute a proportionate share of the target amount, based on UN rates of assessment. Agreement on the "target" level for the Fund reflects a careful balance between the interests of developing states in technical cooperation activities, and the interests of developed states in the Agency's safeguards program. Failure of the United States and other states to provide the agreed level of resources to the TACF could, over time, erode support by developing states for the work of the IAEA and, particularly, its important safeguards function.

The United States remains the largest single contributor of extrabudgetary resources to the IAEA. Other major contributors include Japan, the Soviet Union, the Federal Republic of Germany, France, the United Kingdom, and Canada. In 1988, the U.S. contribution to the IAEA Technical Assistance and Cooperation Fund was approximately $9 million, with contributions by other principal donors ranging from $1 million to $4 million. Like the United States, a number of states also made in-kind contributions to the IAEA safeguards program, nuclear safety activities, the Agency's public information program, and other high priority activities.

Funding for UNEP

Senator Leahy: For UNEP, what would be the effects of a reduction in funding from $9.5 million to $8 million, as proposed by the Administration? What activities might have to be reduced or eliminated? Does the Administration have any justification for this cut in funding besides budget constraints? Is the Administration concerned about UNEP's funding priorities or the effectiveness of UNEP's activities? Ozone depletion and global warming are of great concern to the Congress and the American people. I am told that UNEP is the only organization with an international membership, including the developing countries, that is actively working on these issues. If the Congress were to increase the U.S. contribution to UNEP to $10 million, could these additional funds be used effectively to address these problems? How? How else might these additional funds be used?

Ambassador Pickering: The Administration's request for $8 million for UNEP in FY 1990 constitutes a 17% increase over the amount requested for FY 1989. In addition, for the first time the budget request includes a separate proposal to contribute to the Intergovernmental Panel on Climate Change, an ad hoc group jointly sponsored by UNEP and WMO to assess the evidence for, impact of, and possible responses to climate change -- especially global warming. Monies are also included for the Montreal Protocol and Vienna Convention which deal with ozone depletion. This reflects awareness of and responsiveness to the increased interest in environmental issues, while taking into account overall national interests and persisting budgetary constraints.

UNEP's principal purpose is to stimulate and coordinate environmental activities on the part of member governments and other agencies; this role allows UNEP wide latitude in determining levels of expenditure that can generate effective action. Because it is not UNEP's primary function to fund or conduct environmental programs in individual member countries, UNEP budget levels do not necessarily determine the level of specific program activity in particular areas. Moreover, UNEP's ability to make its typically catalytic contributions does not necessarily require that the growth of worldwide environmental awareness lead to a corresponding increase in UNEP's budget.

UNEP, of course, can make good use of any additional funds it receives. However, it is the Administration's view that support for UNEP should be genuinely multilateral in nature. The United States has remained by far the largest donor to UNEP every year since its founding. Because UNEP addresses issues of common concern to all nations, we encourage other countries to increase their share of contributions to UNEP's work.

UNIFEM and INSTRAW

SENATOR LEAHY: You have proposed significant cuts in both UNIFEM and INSTRAW. What will be the likely effects of these cuts? What programs would be reduced or eliminated? If the Congress were to increase the U.S contribution to UNIFEM to $1 million, could these additional funds be used effectively? How? If Congress were to increase the U.S. contribution to INSTRAW to $250,000, could these additional funds be used effectively? How?

AMBASSADOR PICKERING: While the Administration's budget request for UNIFEM in FY 1990 ($220,000) is less than the amount appropriated for FY 1989 ($800,000), it still represents a 46% increase over last year's request of $150,000.

The Administration supports the work of UNIFEM. We realize that by focusing on women as producers, UNIFEM contributes significantly to the promotion of food security and private sector economic development.

It was not the intention of the Administration to diminish U.S. support for UNIFEM. The decision on the FY 1990 request level was made solely within the context of all the other claims on the budget and the availability of revenues.

It is difficult to speculate what programs would be reduced or eliminated if the FY 1990 contribution to UNIFEM were to be lower than the FY 1989 contribution. We do know that for every dollar of its own funds invested, UNIFEM has leveraged an equal amount from other funds.

The Administration is not arguing that UNIFEM would not use additional funds effectively. To reiterate, our request for $220,000 for UNIFEM reflects our support for UNIFEM, not our displeasure with it. Unfortunately, there is only a finite amount of money available for voluntary contributions to UN organizations.

Likewise, due to competing budget priorities, the Administration did not request funds for INSTRAW for either FY 1989 or FY 1990. Although we do not doubt that INSTRAW would use funds effectively, the decision not to request funds for this organization was made solely within the context of all other claims on the budget and the availability of revenues.

INSTRAW trains decision-makers and development officials so that they understand how women relate to the developmental process; and it trains women's and other professional organizations to act as advocates for developmental change. A contribution to INSTRAW would increase its ability to raise awareness of women in development issues and to provide information on possible solutions to the full participation of women in development both as participants and beneficiararies.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

The PLO and the WHO

Senator DeConcini: The Palestinian Liberation Organization (PLO) has submitted an application to the World Health Organization (WHO) as a "Member-State." I strongly oppose any consideration of the PLO's application to any of the United Nation's specialized agencies and would work to cancel any voluntary or assessed payments by the United States to the UN or any UN agency which would recognize the PLO in this manner. I have also cosponsored legislation which would require this funding cut-off. Would you state for the record the definition of the "internationally recognized attributes of statehood"?

Ambassador Pickering: There is a clear recognition in international law that the key criterion of a "state" is that it exercise effective governmental control over the territory and population it claims as its own. The PLO has no effective government and does not exercise control over the territory and population it claims. It is unable to perform the functions associated with statehood.

SENATOR DECONCINI: As the politicization of the UN's specialized agencies would be extremely detrimental to the performance of their mission, please outline the steps which the State Department and the U.S. Mission to the United Nations are taking to ensure that the Secretary-General and the Directors of the UN's agencies are aware of the U.S. intentions and position regarding the admission of the PLO as a "member-state" in the WHO or any other agency of the UN?

AMBASSADOR PICKERING: We have raised this issue directly with the Secretary-General and with the heads of the various UN specialized agencies. We have made clear our strong opposition to efforts by the PLO to obtain membership for the self-declared "state of Palestine" in the UN or any of its affiliated agencies. Secretary Baker has indicated that withholding of U.S. funds would be an inevitable response to action by a UN agency to admit "Palestine" as a member. We have also sought the support of our allies on this issue and have urged that they make their views known to appropriate officials in the UN system.

UNICEF

Senator DeConcini: The Bush Administration strongly supports the good works of the United Nations voluntary programs and of the U.N. Secretariat's efforts to reduce its bloated and inefficient budget. Consequently, as a reward for these efforts, the overall budget request for FY 90 is approximately $17 million less than was appropriated in FY 89.

In the past, I have been sharply critical of many of the U.N.'s activities. I am concerned, however, that some of the good U.N. programs -- especially UNICEF, which reportedly has contributed to saving the lives of nearly one million children every year -- have been targeted for deep cuts.

Would you justify the Bush Administration's praise for the recent improvements at the U.N. and the positive health efforts of programs such as UNICEF on the one hand with the cutbacks in overall funding on the other? Is this not a cynical effort on the part of the Administration to undercut certain programs which are popular with Congress knowing that they will ultimately be restored?

Ambassador Pickering: In recent years, the trend has been for Administration budget requests for UNICEF to increase each year. The budget request for FY 1990 for $33.9 million is nearly six percent over last year's request of $32.0 million.

On the other hand, the requests have indeed been lower than funds appropriated by the Congress the previous year. The budget requests reflect overall budget constraints, and in particular, competing claims that must be balanced against the projected total availability of resources for U.S. voluntary contributions to all organizations, including UNICEF.

REFORMS/SECONDMENT

SENATOR DECONCINI: One of the U.N. reforms sought by Congress was the elimination of the secondment process. Apparently, the Soviet Union has accepted "in principle" that the practice of secondment should be discontinued. Yet, the Soviet mission to the U.N. has not actually taken any steps in that direction. Would you clarify what is the Soviet position on secondment and what actions have been or will be taken to comply with the Soviet's stated intention on this issue?

AMBASSADOR PICKERING: The Soviet Union announced publicly in Moscow on May 19, 1988, that they had "taken a decision concerning recognition, side by side with short-term contracts, of the system of permanent contracts. As a result, the most competent and experienced Soviet members of the Secretariat will also be able to serve on the basis of permanent contracts." This position was reinforced by a similar public statement in New York on June 16. The identification of Soviets to be offered permanent contracts is a continuing process undertaken jointly by the United Nations Secretariat and the Soviet Union through its mission in New York. By year's end one Soviet national was on long-term contract; two more had received and accepted offers and were in the processing phase of moving to long-term contracts; and five additional offers of long-term contracts had been extended to Soviet nationals.

IAEA Resources

Senator DeConcini: One of the smaller, yet very important functions of U.S. funding to UN activities, is the funding of the International Atomic Energy Agency (IAEA). The Administration has requested $25.2 million to support IAEA's nuclear non-proliferation activities. Of particular interest to me is the IAEA safeguards system. As President Bush has pledged to "strengthen the hand" of the IAEA and work to halt the spread of nuclear weapons in the Third World, do you feel that the funding level is adequate to achieve this important goal? Can you provide the Committee with a report of the recent activities and successes the IAEA has achieved in pursuing its purpose?

Ambassador Pickering: U.S. support to the IAEA safeguards program is provided through both assessed and voluntary contributions to the IAEA. In view of the fact that operational safeguards activities (e.g. material accountancy, inspections, etc.) are funded through the Agency's assessed budget, the continued effectiveness of the safeguards system will depend, in large measure, upon whether the Agency receives timely and full payment of members' assessments for the calendar year. The U.S. assessment for FY 1990 is approximately $42 million, which will be funded through the Department of State appropriation bill.

The annual U.S. voluntary contribution to the IAEA safeguards program contributes in a vital way to the development of safeguards equipment and techniques used by inspectors, and to the development of safeguards approaches for new and more sophisticated nuclear facilities. in the absence of such a program, the IAEA would need to draw upon its limited operational resources to perform necessary research and development activities. Given the fact that a significant portion of the U.S. voluntary contribution to the IAEA will be directed to the support of such safeguards-related initiatives, full funding of the President's request will contribute, in an important way, to "strengthening the hand" of the IAEA and its vital non-proliferation function.

The Annual Report of the IAEA describes in a comprehensive manner the safeguards and other activities of the IAEA. In response to your request, we are making available a copy of the latest annual report (1987), approved by the IAEA General Conference. (The 1988 report will be available in early October.) As these reports make clear, IAEA Safeguards continue to provide assurances to states that nuclear materials under safeguards are not being diverted to military use. This successful verification effort is key to the maintenance of the international nonproliferation regime and to continued U.S. bilateral nuclear cooperation.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

The PLO and the WHO

Senator Harkin: As a signer of the April 13 letter initiated by Senators Leahy and Kasten, I strongly support Secretary Baker's recommendation to President Bush that the U.S. cut off all financial support to any of the United Nations that votes to admit the PLO as a full member. What is the current status of the PLO membership request to the WHO? Will the May 8 WHO assembly be delayed?

Ambassador Pickering: The membership of the World Health Organization at the May 1989 World Health Assembly voted to defer the PLO application for membership. The World Health Assembly began on May 8 as scheduled.

Senator Harkin: What will be the impact of a favorable action by the WHO on the PLO's membership on the Health organization, if U.S. funding were cut off? Has President Bush signed off on Secretary Baker's recommendation? If the WHO were to act favorably on the PLO's membership request, what's next? What other UN organizations will the PLO go to next?

Ambassador Pickering: As you are aware, the PLO was not admitted as a full member of WHO. However, as Secretary Baker indicated, withholding of U.S. funds would be the response to action by a UN agency to admit "Palestine" as a member. Legislation that would mandate a cutoff of U.S. funding under such circumstances is pending in Congress.

The PLO submitted an application for membership in the UN Educational, Scientific and Cultural Organization (UNESCO), but later agreed to deferral of action on this application.

Senator Harkin: What would be the impact of PLO's membership on the Middle East peace process?

Ambassador Pickering: We believe that according the PLO membership would not be helpful to the peace process. We firmly believe that the Arab-Israeli problem must be resolved through direct negotiations, in accordance with UN Security Council resolutions 242 and 338. We believe that the final status of the Occupied Territories can only be determined through negotiations, not through unilateral actions.

OAS FUNDING

SENATOR HARKIN: What is the total of U.S. arrearages to the OAS? Do you expect the U.S. to make up the shortfall? What is the current endebtedness of the OAS? What is the impact of that debt on the OAS's ability to fulfill its mandate?

AMBASSADOR PICKERING: U.S. arrearages to the OAS totalled $25,169,502 at the end of 1988 and will climb to approximately $38,460,027 by the end of 1989.

The Administration's budget proposal for Fiscal Year 1990 includes an initial payment, approximately 10%, as part of a multi-year plan to pay our arrearages over the next six years.

OAS member countries owed the OAS a total of $32,292,323 at the end of 1988, a sum equivalent to one-half of the annual budget.

The arrearage problem caused a cash-flow crisis and forced the OAS to to adopt a draconian policy of limiting expenditures in 1989 to the level of anticipated payments of assessments. The Organization separated, voluntarily and involuntarity, 30% of personnel in early 1989 and took other drastic steps to reduce outlays. Notwithstanding these measures, the OAS was left with no reserves to initiate electoral monitoring activities in Nicaragua mandated by the Tesoro Beach Accords (February, 1989) among all the Central American countries in anticipation of elections in Nicaragua in February, 1989. Thanks to special legislation

(PL 101-45), the OAS has been given $1.500,000 to start up its electoral monitoring activities in Nicaragua.

SENATOR HARKIN: It is my understanding that the March 1988 contra agreement (legislation) set aside $10 million for the OAS and the Catholic Church to monitor the Sapoa Agreement. Only some $3 million of that money has been allocated. Do you intend to shift any of that remaining money to the OAS for its monitoring the election process in Nicaragua?

AMBASSADOR PICKERING: The Sapoa Verification Commission was allocated $10 million by PL 100-276. All of this sum has been obligated but only about $2 million has been expended. The Sapoa Agreement of March, 1988, remains in effect but, due to failure to reach understandings on implementation between the Resistance and the Sandinistas, the activitiy of the Verification Commission has slackened.

Pursuant to the Tesoro Beach Accords, adopted by the five Central American countries in February, 1989, the Government of Nicaragua has invited the OAS to provide observers for the Nicaraguan elections, February 25, 1990. Sapoa Verification Commission funds could be made available to the OAS to carry out the electoral monitoring activities either as part of the Sapoa/Verification Agreement or outside that agreement in support of the Tesoro Beach Accords. To do the latter, it would be necessary to insert language providing for transfer authority (from AID to the OAS) in the applicable legislation.

SENATOR HARKIN: It is my understanding that the Central American presidents, in the February 14 Tesoro Beach agreement, called upon international organizations, and particularly the OAS, to monitor the election process in Nicaragua. Under its current budgetary contraints, can the OAS finance this responsibility? Does the U.S. intend to provide the OAS additional funding to carry out this monitoring task?

AMBASSADOR PICKERING: The Tesoro Beach Accords among the five Central American countries specifically called upon the OAS, together with the UN, to monitor the elections to be held in Nicaragua, February 25, 1990. The critical financial situation of the OAS has effectively barred it from initiating anything other than planning for these monitoring activities. PL 101-45, which was signed by the President, June 30, 1989, allocated $1,500,000 to the OAS to carry out the planned electoral monitoring activities in Nicaragua. This sum is not expected to suffice for the entire program which, besides extending over a period of seven months, will involve paying for up to 200 foreign observers of election preparation, registration of voters, campaigning, and balloting to ensure freedom and fairness throughout the process.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

REFORMS/SECONDMENT

SENATOR KASTEN: Ambassador Pickering, you indicate in your statement that under the leadership of the Secretary-General, progress has been made on reforms demanded by the United States, including a reduction in the practice of secondment by the Soviet Union and others of their personnel to the U.N. You rightly indicate that this practice violates the concept of an independent international civil service. Precisely what progress has been made in this area? Please be specific. How many fewer Soviets are under secondment today than were before these reforms were suggested? How many fewer Eastern bloc personnel are under secondment now than before?

AMBASSADOR PICKERING: Data made available to us by the United Nations Secretariat indicated that in December 1987, before the reforms were adopted by the General Assembly, of 184 Soviets in posts subject to geographic distribution none were on permanent contract. In December 1988, of 184 in such posts, 1 was on permanent contract, 2 were in the process of moving to long-term contracts, and 5 additional offers had been tendered. In December 1987, of 65 Eastern bloc nationals in the Secretariat in posts subject to geographic distribution, 8 were on permanent contract; in December 1988, of 60 Eastern bloc nationals, 9 were on permanent contract.

UNICEF

SENATOR KASTEN: Mr. Ambassador, your statement indicates that as a show of the Administration's support for the United Nations, you should receive full funding in the assessed budget, yet the request suggests a radical reduction of appropriations to UNICEF.

What is the Administration's complaint of UNICEF that it would recommend such a large cut? Based on your statement about the assessed budget, one must conclude that you believe UNICEF is doing a poor job. Is that true? Why?

AMBASSADOR PICKERING: UNICEF is funded from voluntary contributions by governments and non-governmental organizations, and not from the United Nation's assessed budget. The Administration's support for full funding of our assessed contribution and its funding request for a U.S. voluntary contribution to UNICEF are consistent with the Administration's support for United Nations.

While the Administration's budget request of $33.9 million for UNICEF in FY 1990 is less than the amount appropriated for FY 1989, it still represents a nearly six percent increase over last year's request of $32.0 million.

It is not the intention of the Administration to diminish the U.S.'s unflagging support for UNICEF. The decision on the

FY 1990 request level was made solely within the context of all the other claims on the budget and the availability of revenues.

UNDP

SENATOR KASTEN: You recommend a reduction in the appropriation for the United Nations Development Program, despite your agreement with Congressional consensus that UNDP programs are very valuable and that it's been successful in keeping politics out of its operations. Also, I'm informed that other donors to UNDP have continually increased their contributions and are close to overtaking the United States in total funding. The upshot of this, of course, is a growing demand that UNDP no longer be headed by an American, which is not a desirable result.

Given these facts, why are you recommending a reduction in UNDP?

AMBASSADOR PICKERING: The reduction in the proposed appropriation for the United Nations Development Program (UNDP) reflects overall constraints on the federal budget rather than any diminished commitment to the UNDP.

We have had to make some very difficult choices. In order to provide funding for other UN programs, the Administration's appropriations request for UNDP was marginally reduced. UNDP is still the largest UN recipient of U.S. voluntry contributions, and the U.S. continues to be the largest contributor to UNDP's core resources.

It should further be noted that during the fourth programming cycle, (1987-1991), depreciation of the U.S. dollar against other currencies resulted in UNDP having $600 million more available for programming than had been anticipated at the beginning of the cycle.

International Fund for Agricultural Development (IFAD)

SENATOR KASTEN: There is no request for IFAD this year, which I assume is true because the replenishment negotiations have not been completed. Can you give us an update on the progress and status of those replenishment negotiations?

AMBASSADOR PICKERING: Negotiations on the third replenishment of IFAD were concluded successfully in early June when an agreement was reached on a two-year replenishment to be completed June 30, 1992. As part of the replenishment agreement, OECD countries will match OPEC country contributions at 60 percent to 40 percent. OECD countries have also agreed to a formula by which they will match contributions of the developing countries on a 3 to 1 basis overall (the U.S. will match up to $50 million at 2 to 1 with other OECD countries making up the difference). The exact level of the replenishment will not be known until late September, after the developing countries finalize their pledges. However the United States has put a ceiling of $82.8 million on its total contribution to the third replenishment.

QUESTION SUBMITTED BY SENATOR ALFONSE M. D'AMATO

UNICEF

Senator D'Amato: Will the reduction in funding for UNICEF prevent UNICEF from achieving the World Health Organization's objective of worldwide childhood immunization and oral rehydration therapy by 1990?

Ambassador Pickering: The level of the U.S. voluntary contribution to UNICEF is not the key determinant of UNICEF's ability, or that of other organizations, to achieve the objectives of universal child immunization (UCI) and greater use of oral rehydration therapy (ORT) by 1990. Other important factors include:

- o the portion of UNICEF core resources allocated to stated priorities (e.g., two percent of UNICEF program resources for ORT in 1988);
- o special bilateral support -- both from the U.S. and other donors -- to UNICEF and other implementing agencies supporting efforts to achieve these goals; and
- o the commitment (political and financial) of recipient countries.

Even so, financial support and goodwill alone cannot eliminate other obstacles posed by the absorptive capacity of some recipient countries. It also is important that UNICEF assist recipient countries to build and maintain the capability to sustain programs over the longer term after UNICEF and/or other external funding ends.

The U.S., in addition to its voluntary contribution to UNICEF, strongly supports and complements UNICEF efforts in these areas through our contributions to WHO, other multilateral organizations and our bilateral assistance programs. For example, the U.S., through the Agency for International Development, has worked closely with UNICEF in expanding immunization coverage in India. In December, 1988, the U.S. Agency for International Development, in collaboration with UNICEF, UNDP, and the World Bank, co-sponsored and hosted the Third International Conference on Oral Rehydration Therapy. At the Conference, donors emphasized their support for efforts to sustain and expand ORT programs. The U.S. also has urged UNICEF to increase the percentage of its resources supporting ORT programs, and has underscored the need for actions to ensure the sustainability of its programs in all areas.

SUBCOMMITTEE RECESS

Senator **Lautenberg**. This subcommittee will stand in recess until 2 p.m., on Tuesday, May 9. At that time we will receive testimony from Mr. William Bennett, Assistant Secretary for International Narcotics Matters.

[Whereupon, at 3:18 p.m., Thursday, May 4, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, May 9.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, MAY 16, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:47 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Kasten, and Mikulski.

AGENCY FOR INTERNATIONAL DEVELOPMENT

INSPECTOR GENERAL

STATEMENT OF HERBERT BECKINGTON, INSPECTOR GENERAL

ACCOMPANIED BY JAMES B. DURNIL, DEPUTY AND ASSISTANT INSPECTOR GENERAL FOR AUDIT

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Good afternoon.

Today we will hear testimony on the budget request for fiscal year 1990 from Herbert Beckington, Inspector General of the Agency for International Development; Julia Taft, Director of the Office of Foreign Disaster Assistance; and David Santos, Director of the Office of American Schools and Hospitals Abroad.

The main reason we are having these hearings is accountability for how the American taxpayers' money is used. It is, and always has been, a top priority of this subcommittee.

In a bureaucracy as vast as that of the Federal Government with such a huge budget, the potential for waste, fraud, and abuse is enormous.

No program is more open to waste, fraud, and abuse than our foreign aid, because we have to work through other governments, where corruption is often endemic, institutions weak, poverty widespread, and the temptation to steal intense.

We have to ask for rigorous control of our foreign aid money. Senator Kasten has visited one housing development where so far we have 1-room apartments that are being built at the cost of approximately 10-room mansions in the most expensive areas of Washington. I think we could move the people into the mansions.

So I am delighted, General Beckington, that you are here today to talk about accountability, how effective it is now, and what we can do to improve it. Then we will hear from Ms. Taft about the Office of Foreign Disaster Assistance, and then Mr. Santos about the American Schools and Hospitals Abroad program.

I wonder, General, if you would come forward, then I want to yield first to Senator Kasten and Senator Mikulski after that. I will also leave the record open for statements.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ALFONSE D'AMATO

Thank you, Mr. Chairman. The American Schools and Hospitals Abroad [ASHA] Program has provoked some disagreement in the past between this panel and our counterparts on the House side. Chairman Obey, in particular, has been legitimately concerned that ASHA funds were not being disbursed on the basis of need, but rather as a sort of international pork barrel for members attempting to curry favor.

For that reason, I was very pleased to see that your statement, Mr. Santos, includes a list of 90 institutions in 32 countries that have benefited from ASHA funds in the last 5 years. While nations with long-standing relationships with the U.S. do benefit somewhat disproportionately, many of the countries, such as Botswana, China, Haiti, Mexico, and India, certainly represent some of the neediest nations on Earth.

It is my hope that ASHA will continue to support traditional American ties while remaining especially sensitive to the AID requirements of the most desperately impoverished.

Thank you, Mr. Chairman.

OPENING REMARKS OF SENATOR KASTEN

Senator **KASTEN**. Mr. Chairman, thank you.

I join you in your welcome of our witnesses this afternoon.

Mr. Beckington, the inspector general for AID, is a familiar witness to us on this subcommittee, as he marks, I believe, his 12th year as AID's inspector general.

General, we continue to value your work and the great help that you have been to us and to our staff over the past several years.

I also understand, Mr. Chairman, that Julia Taft is making her final appearance before us—at least before us in this capacity, as her husband accepted an assignment overseas, and she has elected to go with him. Julia, your assignment as head of the Disaster Assistance Office is a difficult one, and I think you have performed well. It has been a pleasure to work with you and we wish you well.

Finally, Mr. Chairman, David Santos is another familiar witness to us here. He has been the Director of the ASHA program for almost 10 years, and we continue to look forward to working with him.

So I look forward to the testimony of all of our witnesses this afternoon, Mr. Chairman. Thank you.

Senator **LEAHY**. Thank you.

Senator Mikulski.

Senator **MIKULSKI**. Mr. Chairman, I have no opening remarks.

We do look forward to hearing from our inspector general. I think that he has proved a really able public servant in helping us identify how we can take a modest set of resources at AID and use them more wisely.

So, I think that we need to get on with the testimony.

THE HELWAN HOUSING PROJECT IN EGYPT

Senator **Leahy**. Thank you, and General, please feel free to start.

One thing that I should note about my opening statement—I was referring of course to the Helwan housing project, a project to build 7,000 units of low-cost housing for the poor, started about 10 years ago. We have put $130 million into it and we have only seen five or six apartments completed. At this rate, we spend less to house astronauts in space than we would pay to house poor people on the ground.

Both Mr. Newsom and Mr. Bond were there with me, and while I realize that particular project may finally be progressing, it is the sort of thing that all of us shudder at. There is no great constituency for foreign aid money out there. We always worry when we go back home that somebody is going to point and say, "This is what the Congress spends money on."

So with that, General, please proceed.

SUMMARY STATEMENT OF GENERAL BECKINGTON

General **Beckington**. Thank you, Mr. Chairman.

If I may, sir, I would like to offer my witness statement for the record, make a couple of summary comments drawn from my statement, and then answer such questions as the committee may have.

I also, with your permission, sir, would like to ask that Mr. Durnil, my deputy, could join me at the witness table.

Senator **Leahy**. Of course.

General **Beckington**. My budget request for fiscal year 1990, which is before this committee today, Mr. Chairman, is $31.2 million—a slight increase over the current year's budget.

The increase is essentially accounted for by the fact that it is the first request for a full year of funding of the new staffing level of not less than 240 FTE, directed by the Congress approximately 2 years ago.

We will achieve that level on schedule as planned by the end of this fiscal year, so that we should enter the new fiscal year at or very, very close to that strength, and the budget request is based upon that fact.

At the top of page 2 of my prepared statement, Mr. Chairman, I have noted in summary form the results of audit work carried out—audit and investigative work—carried out over the past year, since my last appearance before the committee.

Those are, I think, quite good results from my perspective, as inspector general. I think they are a little bit less than what I reported 1 year ago, and what I reported 2 years ago, but they nevertheless, I think, reflect audit and investigative work of sound quality and careful attention by the management of the Agency to our recommendations.

One type of audit work that is somewhat new to us in the past year that I would like to make specific mention of are three examples of what we call concurrent auditing. Concurrent, as distinguished from after-the-fact auditing.

In two instances, I was directed by the Congress in the annual appropriations legislation to conduct audits of the earthquake disaster relief effort in El Salvador and later, last fall, the terrible hurricane that struck Jamaica, and the relief effort that the United States mounted in that case.

In both of those instances, we commenced auditing at the very beginning of the relief effort, using private accounting firms supervised on a day-to-day basis by an audit team from my regional office in Honduras. The results of that kind of audit effort, carried out in conjunction with the management responsibilities by the AID missions in El Salvador and Jamaica, respectively, I think, are praiseworthy.

These are situations which, as the committee will recognize, are fraught with potential for waste, fraud, and abuse. People's attention is not on accountability under those circumstances. It is on feeding the hungry and rescuing the injured and caring for them, and providing shelter and things of that nature.

In this case, the combination of the concurrent auditing and the close oversight by the AID missions in each country, I think, has prevented anything but relatively small problems. It was not that problems did not arise. They did, as they always do in these situations, Mr. Chairman, but they were caught early, and people moved to correct them early, so that they did not become serious problems.

The third example of concurrent auditing is the Nicaraguan humanitarian relief effort in support of the Contras in Honduras. That task was assigned to my agency on very short notice, on April 1, 1988.

The agency determined that the effort would be open, nonclassified, and accountable at every step of the way. A task force was established, and I was asked and directed to concurrently audit the effort as it went forward.

There, again, I think it has been a successful effort. The GAO issued its first report a couple of weeks ago on the first 6 months—the period from April 1, 1988, to October 1, 1988, and had not one recommendation or seriously adverse finding, in an effort that I think was fraught with the potential for waste, fraud, and abuse from day one.

I further go on, Mr. Chairman, to highlight two or three specific audits carried out by my office in the past year. One of them was of the Aswan High Dam rehabilitation effort in Egypt. I mention it because we have given it a very clean bill of health.

I am frequently critical, as the inspector general, of efforts in our program in Egypt, and it is a pleasure for me to be able to report one to this committee that I find on time, on budget, and on course.

I mention, then, two or three more audits which have exposed problems, some of them of long standing in the Agency's operations. One dealt with how AID identifies troubled projects and what we do about them.

In that particular case, we found that AID has a perfectly good system on the books for identifying projects that are troubled, that are beginning to run into trouble, that are beginning to fall behind, over budget, or whatever the problem or combination of problems may be.

We found, however, that having said that, that the agency does not, in many cases, execute and carry out its own systems with any particular effectiveness or efficiency.

I mention also an audit of cash advances. This is a long-standing problem in my agency. We advance cash, the law and the regulations permit us to advance cash, to nonprofit organizations and grantees, to meet their immediate cash needs as they carry out an AID-funded project or program.

We do not do very well, as an agency, in managing this particular process, and we repeatedly find excessive cash advances and inadequate and inaccurate recordkeeping with respect to them.

Finally, I mention another problem which I know I have mentioned to this committee before, and these are problems associated with the Agency's use of local currency. I do want to mention once again, the non-Federal audit program. It is one that is carried out with private accounting firms around the world under the direct supervision of the AID inspector general and our regional offices, and it is now a full-blown program.

Last year, in the past 12 months, we have done 77 such audits. There have been significant recoveries as a result of these audits. But, also, a very disturbing but understandable theme running through so many of them—more than one-half of them—is the fact that financial management expertise in the underdeveloped countries of the world is an area that needs an awful lot of improvement.

Investigative operations have proceeded normally over the past year. I have no particular point to make there, except to say once again how difficult the investigative task is in the foreign environment. The writ of the United States does not run, of course, in the countries where AID's programs are carried out.

Finally, I would mention just one aspect of our security operations. As you may know, Mr. Chairman—the AID inspector general is the only one of the statutory inspectors general who has the security function assigned by law. And I am very pleased—a couple of years ago, across the executive branch, there was very serious concern over the fact that update investigations, security investigations of employees of the Government had fallen far behind the standards set by the Executive order that governs the subject.

AID was also far behind. We have made a very special effort over the last 2 years, and by fall of this year, the first quarter of fiscal 1990, I expect to have all of our agency's staff fully up to the standards required of background security investigations for employees of the Federal Government.

I think with that, sir, I will stop and take such questions as the subcommittee may have.

[The statement follows:]

STATEMENT OF HERBERT L. BECKINGTON

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE FISCAL YEAR 1990 BUDGET REQUEST FOR THE OPERATING EXPENSES OF THE A.I.D. OFFICE OF INSPECTOR GENERAL. WITH ME TODAY IS MR. JAMES B. DURNIL, DEPUTY AND ALSO ASSISTANT INSPECTOR GENERAL FOR AUDIT.

THE BUDGET REQUEST

THE FISCAL YEAR 1990 REQUEST FOR IG OPERATIONS, $31.2 MILLION, WILL FUND THE IG'S PLANNED 1990 OPERATIONS AT THE NEW 240 FTE LEVEL INITIATED BY THE CONGRESS IN THE FISCAL YEAR 1988 CONTINUING RESOLUTION. AS YOU MAY RECALL, MR. CHAIRMAN, THE AUGMENTED STAFFING WAS TO BE ACHIEVED OVER A TWO YEAR PERIOD ENDING IN THE LAST QUARTER OF THIS FISCAL YEAR.

WE WILL MEET THAT GOAL.

ADDITIONALLY, WORKING IN CLOSE COORDINATION WITH THE STATE DEPARTMENT THE PLANNED NEW POSITIONS AT EACH OF OUR OVERSEAS REGIONAL OFFICES HAVE BEEN OR ARE BEING ESTABLISHED. IF THE FY 1990 BUDGET REQUEST IS APPROVED BY THE CONGRESS, WE WILL HAVE IN PLACE FOR THE FIRST TIME WHAT I BELIEVE TO BE MINIMALLY ADEQUATE AUDIT AND INVESTIGATIVE OVERSIGHT OVER THE HIGHLY VULNERABLE FOREIGN AID PROGRAM PLUS AN AUSTERE PERSONNEL AND PHYSICAL SECURITY PROGRAM FOR THE AGENCY.

ACCOMPLISHMENTS OVER THE PAST YEAR

IN THE PAST FISCAL YEAR, THE IG ISSUED 363 AUDIT REPORTS, INTERNAL AND EXTERNAL. THESE REPORTS IDENTIFIED ECONOMY AND EFFICIENCY SAVINGS OF $71 MILLION AND RECOMMENDED RECOVERIES OF $18.6 MILLION AND DEOBLIGATIONS OF $106 MILLION. THESE DEOBLIGATIONS CAN VARIOUSLY REDUCE FUTURE OUTLAYS OR BE REPROGRAMMED FOR NEW FOREIGN AID INITIATIVES. DURING THE SAME PERIOD AGENCY MANAGEMENT ACTUALLY DEOBLIGATED OR RECOVERED $24.6 MILLION. THESE RESULTS REFLECT, IN MY JUDGMENT, BOTH HIGH QUALITY AUDIT WORK AND SERIOUS ATTENTION BY AGENCY MANAGEMENT PARTICULARLY TO OUR FINANCIALLY ORIENTED RECOMMENDATIONS.

EXAMPLES OF AUDIT OPERATIONS

OVER APPROXIMATELY THE PERIOD SINCE MY LAST APPEARANCE BEFORE THE SUBCOMMITTEE WE HAVE HAD THE EXPERIENCE OF CONDUCTING WHAT WE CALL CONCURRENT AUDITING OF THREE AGENCY EFFORTS OF THE KIND THAT USUALLY ARE EXTRAORDINARILY VULNERABLE TO FRAUD, WASTE AND MISMANAGEMENT. IN EACH CASE THE CONCURRENT AUDITING APPROACH HAS CONTRIBUTED IN A MAJOR WAY TO THE AVOIDANCE OF JUST SUCH PROBLEMS AND THUS TO THE SUCCESSFUL ACCOMPLISHMENTS OF EACH OF THE PROGRAMS. TWO WERE MAJOR NATURAL DISASTERS, THE JAMAICA HURRICANE AND THE EL SALVADOR EARTHQUAKE. IN EACH INSTANCE DESTRUCTION AND LOSS OF LIFE WERE EXTENSIVE AND IN EACH INSTANCE CONGRESS RESPONDED BY APPROPRIATING LARGE SUMS OF MONEY FOR IMMEDIATE AND ONGOING EMERGENCY RELIEF AND REHABILITATION. CONGRESS DIRECTED ME TO MONITOR AND REPORT ON THE USES OF THE FUNDING. THE THIRD PROGRAM IN WHICH WE USED THE CONCURRENT AUDITING APPROACH HAS BEEN THE PROGRAM AUTHORIZED AND FUNDED BY THE CONGRESS IN MARCH OF 1988, AND LATER EXTENDED, TO PROVIDE NONLETHAL AND HUMANITARIAN SUPPORT TO NICARAGUAN RESISTANCE FORCES. GIVEN THE UNUSUALLY DIFFICULT CIRCUMSTANCES SURROUNDING THIS PROGRAM THE AGENCY FACED, IN MY JUDGMENT, EXTREMELY DIFFICULT IMPLEMENTATION PROBLEMS NOT THE LEAST OF WHICH INVOLVED INSURING THE INTEGRITY OF THE FUNDS PROVIDED.

THE METHODOLOGY EMPLOYED IN EACH OF THESE CASES WAS TO ENGAGE THE SERVICES OF A REPUTABLE, QUALIFIED PRIVATE ACCOUNTING FIRM TO AUDIT THE FINANCIAL TRANSACTIONS AND MONITOR PROGRAM ACTIVITIES AS THE DELIVERY OF THE AID AND IMPLEMENTATION OCCURRED. IN EACH INSTANCE THE DAY-TO-DAY ACTIVITIES AND WORK OF THE PRIVATE FIRMS WERE CARRIED OUT UNDER THE DIRECT SUPERVISION AND OBSERVATION OF AN AUDIT TEAM OF THE INSPECTOR GENERAL'S STAFF. AS THE SUBCOMMITTEE MAY BE AWARE, UNDER THE LAW AN INSPECTOR GENERAL IS AUTHORIZED TO EMPLOY THE SERVICES OF A PRIVATE ACCOUNTING FIRM, BUT IN DOING SO IS RESPONSIBLE FOR INSURING THAT THE PERFORMANCE OF THE PRIVATE FIRM MEETS THE STANDARDS SET BY THE COMPTROLLER GENERAL OF THE U.S.

AS YOU MIGHT EXPECT, MR. CHAIRMAN, IN EACH OF THESE THREE PROGRAMS IMPLEMENTION PROBLEMS OF VARIOUS KINDS WERE EXPERIENCED ALMOST FROM THE PROGRAM'S OUTSET. THE DIFFERENCE IN THESE CASES WAS THAT THEY WERE DETECTED ALMOST AS THEY

EMERGED OR BEGAN AND REPORTED PROMPTLY AND CONCISELY TO THE RESPONSIBLE AGENCY OFFICER WHO WAS ABLE TO, AND IN EVERY INSTANCE TO MY KNOWLEDGE, DID TAKE QUICK CORRECTIVE ACTION. ONE RESULT IN THE NICARAGUAN PROGRAM, FOR EXAMPLE, WAS A RECENT GAO DRAFT REPORT ON THE FIRST SIX MONTHS OF THAT EFFORT, APRIL--OCTOBER 1988, THAT CONTAINED NO RECOMMENDATIONS FOR CORRECTIVE OR REMEDIAL ACTIONS BY THE AGENCY.

I WANT TO BRING ANOTHER AUDIT TO YOUR ATTENTION, ONE IN OUR PROGRAM OF AID TO EGYPT IN WHICH WE FOUND A WELL MANAGED ACTIVITY PROCEEDING ON SCHEDULE AND WITHIN BUDGET. IT IS THE ASWAN HIGH DAM POWER STATION REHABILITATION AND MODERNIZATION PROJECT INITIATED AND CURRENTLY AUTHORIZED AT $140 MILLION IN APRIL OF 1982. THE PROJECT INVOLVES THE DESIGN, MANUFACTURE AND REPLACEMENT OF TWELVE HYDRO TURBINE RUNNERS, CIRCUIT BREAKERS AND ASSOCIATED RELAY AND CONTROL INSTRUMENTATION. AT THE TIME OF OUR AUDIT, SIX OF THE HUGE TURBINE RUNNERS HAD BEEN INSTALLED AND THE HYDRO-TURBINE GENERATING UNITS HAD BEEN REHABILITATED AND RETURNED TO OPERATION. I FIND MYSELF SO OFTEN REPORTING CRITICAL AUDIT RESULTS IN THE LARGE AND COMPLEX EGYPT AID PROGRAM THAT I FELT I SHOULD BRING THIS SUCCESSFUL ONE TO YOUR ATTENTION.

I HAVE, OF COURSE, ISSUED CRITICAL AUDIT REPORTS OVER THE PAST YEAR. I WOULD LIKE TO NOTE THREE EXAMPLES STEMMING FROM OUR EFFORT TO GIVE GREATER ATTENTION TO A.I.D. SYSTEMS OF MANAGEMENT AND ADMINISTRATION. THESE AUDITS EXAMINED (1) THE AGENCY'S SYSTEM FOR IDENTIFYING AND ACTING UPON TROUBLED PROJECTS, (2) ON ISSUANCE AND CONTROL OF CASH ADVANCES TO NONPROFIT ORGANIZATIONS AND GRANTEES AND FINALLY (3) CONTINUING PROBLEMS IN ACCOUNTING FOR AND CONTROL OVER LOCAL CURRENCY.

TROUBLED A.I.D. PROJECTS

A.I.D. USES BILATERAL FOREIGN ASSISTANCE PROJECTS TO PROMOTE DEVELOPMENT IN LESSER DEVELOPED COUNTRIES AND THE A.I.D. PORTFOLIO HAS ABOUT 2300 ACTIVE PROJECTS WITH FUNDING IN EXCESS OF $22 BILLION. THESE PROJECTS ARE HIGHLY SUSCEPTIBLE TO IMPLEMENTATION PROBLEMS BECAUSE OF DIFFICULTIES COMMON TO UNDERDEVELOPED COUNTRIES, SUCH AS SHORTAGES OF MANAGERIAL TALENT, INADEQUATE INFRASTRUCTURE AND INSTITUTIONS AND LIMITED

BUDGETS. IN THESE CIRCUMSTANCES, A.I.D. MUST HAVE EFFECTIVE SYSTEMS TO IDENTIFY AT AN EARLY POINT AND RESOLVE PROJECT IMPLEMENTATION PROBLEMS, OR TO SHIFT FUNDS TO MORE PRODUCTIVE AREAS WHEN PROJECTS ARE FAILING OR THREATENING TO DO SO.

SYSTEMS DEVISED BY A.I.D. MISSIONS TO MONITOR PROJECT ACTIVITIES WERE SURFACING PROJECT IMPLEMENTATION PROBLEMS, BUT PROMPT OR EFFECTIVE ACTIONS TO CORRECT IDENTIFIED PROBLEMS WERE NOT ALWAYS TAKEN. THE AUDIT ALSO FOUND THAT THE AGENCY'S SYSTEM OF MANAGING DEOBLIGATION/REOBLIGATION AUTHORITY DID NOT ENSURE THE AUTHORITY WAS USED TO ITS FULL POTENTIAL. THE AGENCY HAD ISSUED ONLY LIMITED CRITERIA FOR USING THE AUTHORITY AND HAD NO STRUCTURED PROCESS FOR REVIEWING POTENTIAL DEOBLIGATION SITUATIONS. ALSO, A.I.D. MISSIONS FREQUENTLY EXTENDED PROJECTS WHICH HAD PERSISTENT PROBLEMS WITHOUT FORMALLY ASSESSING ALTERNATIVE STRATEGIES, INCLUDING PROJECT TERMINATION.

CASH ADVANCES

THE FEDERAL GOVERNMENT PERMITS GRANTEES AND NONPROFIT ORGANIZATIONS TO RECEIVE CASH ADVANCES TO MEET IMMEDIATE CASH NEEDS RELATED TO FEDERAL PROGRAMS. A REVIEW OF THE AGENCY'S CASH ADVANCES SHOWED THAT (1) ADVANCES WERE NOT LIMITED TO THE IMMEDIATE CASH NEEDS OF RECIPIENTS, (2) RECOVERIES OF EXCESS CASH ADVANCES WERE NOT MADE IN A TIMELY MANNER, AND (3) RECORDS OF ADVANCES WERE POORLY MAINTAINED. BECAUSE OF MAJOR RECORDS DEFICIENCIES, THE AUDITORS WERE NOT ABLE TO DETERMINE THE MAGNITUDE OF UNRECOVERED ADVANCES. THE AMOUNT COULD BE SUBSTANTIAL BECAUSE $15 MILLION OF OUTSTANDING ADVANCES IN OUR SAMPLE HAD NOT BEEN LIQUIDATED FOR AT LEAST A YEAR, $2.2 MILLION OF DUPLICATE PAYMENTS WERE MADE, AND $12.3 MILLION OF ADVANCES WERE IN EXCESS OF REPORTED EXPENDITURES. A MAJOR FACTOR CONTRIBUTING TO THESE PROBLEMS WAS THE FACT THAT THE AGENCY'S NEW FINANCIAL ACCOUNTING CONTROL SYSTEM HAD NOT BEEN FULLY IMPLEMENTED AFTER ALMOST TEN YEARS OF EFFORT.

PROBLEMS IN LOCAL CURRENCY

A.I.D. CONTINUES TO ENCOUNTER PROBLEMS IN THE ACCOUNTABILITY FOR AND CONTROL OVER LOCAL CURRENCIES ACCRUING FROM PL 480 AND ESF PROGRAMS. EXAMPLES OF THESE PROBLEMS ARE EVIDENT IN TWO

RECENT AUDITS OF A.I.D. PROGRAMS IN BOLIVIA. ONE AUDIT REVIEWED 1986 AND 1987 ESF CASH TRANSFERS. THE AGREEMENTS INVOLVED IN EACH INSTANCE REQUIRED THE GOVERNMENT OF BOLIVIA TO MAKE AVAILABLE EQUIVALENT AMOUNTS OF LOCAL CURRENCY TO SUPPORT DEVELOPMENTAL ACTIVITIES. THE AUDIT FOUND THAT THE A.I.D. MISSION HAD RECEIVED NO FINANCIAL REPORTS AND HAD EXERCISED ESSENTIALLY NO OVERSIGHT OVER THE FINANCIAL STATUS OF THE LOCAL CURRENCY ACCOUNTS ASSOCIATED WITH OUR CASH GRANTS. NO MISSION OFFICE HAD BEEN ASSIGNED RESPONSIBILITY TO VERIFY THAT THE REQUIRED LOCAL CURRENCY DEPOSITS HAD ACTUALLY BEEN MADE. AS A RESULT AT THE TIME OF OUR AUDIT THE LOCAL CURRENCY EQUIVALENT OF ALMOST $6 MILLION OF A $14.3 MILLION TOTAL HAD NOT BEEN DEPOSITED BY BOLIVIA. A SECOND AUDIT OF THE PL 480 TITLE I PROGRAM IN BOLIVIA DISCLOSED SIMILAR PROBLEMS OF ACCOUNTABILITY AND CONTROL OVER LOCAL CURRENCY. IN THIS AUDIT WE FOUND THE EQUIVALENT OF $15.3 MILLION IN LOCAL CURRENCY RESULTING FROM THE SALE OF TITLE I COMMODITIES HAD NOT BEEN PLACED ON DEPOSIT AS REQUIRED BY THE AGREEMENT.

THE PROBLEMS FOUND IN ACCOUNTING FOR AND CONTROLLING LOCAL CURRENCY IN BOLIVIA MERELY REPEAT THE PROBLEMS MY OFFICE HAS PREVIOUSLY REPORTED ON IN THE PHILIPPINES, EGYPT, SUDAN, EQUADOR AND OTHER COUNTRIES THOUGHOUT THE WORLDWIDE FOREIGN A.I.D. PROGRAM. THE AGENCY HAS SERIOUS PROBLEMS WITH ACCOUNTING, CONTROLLING AND PROGRAMMING THE ACTUAL USES OF THESE CURRENCIES. MY OFFICE HAS DIFFICULTY VERIFYING OR AUDITING THE USE OF THESE CURRENCIES. WHEN THE AGENCY PERMITS LOCAL CURRENCIES TO BE USED FOR GENERAL BUDGET SUPPORT AND DOES NOT REQUIRE SEPARATE BANK ACCOUNTS, IT IS IMPOSSIBLE FOR MY AUDITORS TO DETERMINE WHETHER THE CURRENCIES WERE USED FOR DEVELOPMENT PURPOSES AS REQUIRED BY LEGISLATION AND THE CONTROLLING BILATERAL AGREEMENTS.

NON-FEDERAL AUDIT PROGRAM

RECOGNIZING THE NEED FOR INCREASED AUDIT OVERSIGHT OVER THE FINANCIAL ASPECTS OF OUR FOREIGN AID PROGRAM AND THE CONSTRAINTS ON EXPANDING A.I.D.'S OWN AUDIT RESOURCES, I INITIATED A WORLDWIDE PROGRAM FOR USING NON-FEDERAL AUDITORS TO CONDUCT FINANCIAL AND COMPLIANCE AUDITS OF AGENCY PROJECTS, GRANTS AND CONTRACTS. IN EACH OF THE LAST TWO YEARS, I HAVE REPORTED TO THE SUBCOMMITTEE ON THE GROWTH AND DEVELOPMENT OF

THIS PROGRAM. MY OFFICE'S OVERSIGHT OF NON-FEDERAL AUDIT ACTIVITIES HAS NOTED SIGNIFICANT IMPROVEMENT IN THE QUALITY OF AUDITS MADE BY MAJOR INTERNATIONAL AUDITING FIRMS.

HOWEVER, THESE SAME AUDIT REPORTS REFLECT THE FINANCIAL MANAGEMENT ENVIRONMENT IN WHICH FOREIGN AID PROGRAMS ARE ADMINISTERED. OVER ONE-HALF OF THE 77 NON-FEDERAL AUDITS MADE LAST YEAR IDENTIFIED FINANCIAL PROBLEMS SO SEVERE THAT UNQUALIFIED OPINIONS COULD NOT BE GIVEN TO THE ENTITY'S FINANCIAL STATEMENTS. ALSO, THESE REPORTS RECOMMENDED THAT $7.4 MILLION IN COSTS BE RECOVERED. THESE DISTURBING AUDIT RESULTS SEND A CLEAR SIGNAL OF THE NEED FOR AN INTEGRAL AUDIT REQUIREMENT IN ALL ASPECTS OF THE FOREIGN AID DELIVERY SYSTEM. WITH CONTINUED SUPPORT BY AGENCY MANAGERS IN PROVIDING FUNDS FOR NON-FEDERAL AUDIT SERVICES, THIS PROGRAM SHOULD GO A LONG WAY IN IMPROVING FINANCIAL MANAGEMENT AND STRENGTHENING FINANCIAL AUDIT COVERAGE OVER FOREIGN AID EXPENDITURES.

INVESTIGATIVE OPERATIONS

THE INSPECTOR GENERAL HAS RESPONSIBILITY FOR CRIMINAL, CIVIL AND ADMINISTRATIVE INVESTIGATIONS WITH THE AGENCY. WE HAVE 32 U.S. AND 7 FOREIGN NATIONAL CRIMINAL INVESTIGATORS SERVING AT 6 OVERSEAS AND ONE DOMESTIC REGIONAL OFFICES FROM WHICH WE SUPPORT THE 70 A.I.D. MISSIONS AND OFFICES WORLDWIDE. WE HAVE EXPERIENCED SIGNIFICANT SUCCESS OVER THE PAST FISCAL YEAR IN WHAT IS ALWAYS A VERY DIFFICULT INVESTIGATIVE ENVIRONMENT.

IN THE LAST FISCAL YEAR INVESTIGATIONS HAVE RESULTED IN OVER $2 MILLION OF RECOVERIES, FINES, DEOBLIGATIONS OR SAVINGS; 12 CRIMINAL CONVICTIONS; 55 ADMINISTRATIVE ACTIONS (TERMINATION OF EMPLOYMENT, SUSPENSIONS AND REPRIMANDS). THESE CASES INCLUDED, FOR EXAMPLE, THE CONVICTIONS IN FEDERAL COURTS OF A MISSION DIRECTOR ON CONFLICT OF INTEREST CHARGES, OF A FOREIGN SERVICE OFFICER ON CHARGES OF MISUSING HIS DIPLOMATIC PASSPORT AND A FOREIGN SERVICE NATIONAL EMPLOYEE CONVICTED IN A KENYAN COURT OF FORGERY AND THE THEFT OF ABOUT $90,000 OF A.I.D. PROJECT FUNDS.

ADDITIONALLY, IN THE PAST YEAR, WE HAVE CONTINUED AN AGGRESSIVE WORLDWIDE INTEGRITY AWARENESS PROGRAM AND REACHED

OVER 1500 EMPLOYEES, CONTRACTORS AND OTHERS DOING BUSINESS WITH A.I.D. THESE EFFORTS HAVE BEEN SUPPLEMENTED WITH POSITIVE COVERAGE OF CONVICTIONS IN BOTH INTERNAL AND EXTERNAL NEWS MEDIA, AS WELL AS AN INTEGRITY PAMPHLET AIMED AT SITUATIONS SUPERVISORS ARE LIKELY TO ENCOUNTER.

SECURITY OPERATIONS

THE FINAL AREA OF A.I.D. IG RESPONSIBILITY IS THAT OF SECURITY. THE SECURITY FUNCTIONS INCLUDE THE CONDUCT OF PERSONNEL BACKGROUND INVESTIGATIONS, THE PROTECTION OF NATIONAL SECURITY INFORMATION, MANAGEMENT OF A SECURITY RADIO PROGRAM, AND THE CONDUCT OF COMPLIANCE INSPECTIONS AND ENHANCEMENT RECOMMENDATIONS FOR PHYSICAL SECURITY AT A.I.D. OVERSEAS POSTS. WE ADMINISTER THESE PROGRAMS WITH A SMALL STAFF OF 26 HIGHLY QUALIFIED AND PROFESSIONAL SECURITY PERSONNEL.

I AM PARTICULARLY PLEASED TO REPORT THAT THE REQUIREMENT THAT SECURITY CLEARANCES BE UPDATED EVERY FIVE YEARS FOR THOSE EMPLOYEES WHO HOLD SUCH CLEARANCES WILL BE MET THIS CALENDAR YEAR IN THE CASE OF A.I.D. AS WAS TRUE OF OTHER GOVERNMENT AGENCIES, AS RECENTLY AS TWO YEARS AGO WE HAD FALLEN BEHIND IN MEETING THIS REQUIREMENT. IT HAS TAKEN A SPECIAL EFFORT TO CLEAR THE BACKLOG. BY THE LAST QUARTER OF THIS YEAR WE WILL BE UP TO DATE ON THIS IMPORTANT REQUIREMENT AND WE WILL STAY UP TO DATE.

MR. CHAIRMAN, THIS COMPLETES MY PREPARED STATEMENT.

GENERAL QUESTIONING

Senator **Leahy**. Thank you.

General, I find that as I go around and talk to some of the AID people in the field, and I find their attention wandering, or something, I just mention your name, and that brings everybody's attention back.

You are not necessarily beloved, nor are your trips looked forward to with the eager anticipation that children have toward the visits of Santa Claus, for example.

I kind of feel the same way about the days when I was a district attorney, and when I used to show up at certain areas of our State, or certain activities in our State, that I was not greeted with universal acclaim.

AGENCY ATTITUDE TO INSPECTOR GENERAL FUNCTION

Now, how would you characterize the attitude and responsiveness of AID personnel to your office? What kind of cooperation do your people get?

General **Beckington**. It is kind of a mixed bag, Mr. Chairman.

I think that it is inevitable that the relationship between an inspector general and the organization that he is a part of has a certain amount of built-in tension. I know that it is that way in AID, and I have no reason to believe that it is any different in any other department or agency of the Government that has a statutory inspector general.

It takes a little bit of doing on both sides to ensure that that sort of natural level of tension does not deteriorate into something worse and more sticky.

On our side, I think that we constantly stress the need for the highest possible level of professionalism. It is very easy, in my experience, for people—and it is a natural, understandable reaction, I think—to tend to personalize criticism, and to look for motivation of one kind or another that is not there.

So I do not expect to be welcomed with open arms, but I expect to be welcomed with a reasonable degree of respect and attention.

Senator **Leahy**. That was the point of my question.

Everybody would like the situation to be that the inspector general never comes by, because there is never any reason for him to. But when you do, and when your office does, is there a difference, for example, between the attitude of the hierarchy, say, here in Washington, and those in the field?

Or does it vary everywhere you go?

General **Beckington**. It is difficult for me to generalize, Mr. Chairman, and I am not evading your question.

We encounter differing kinds of reactions, both here in Washington from time to time at the bureau and office director level, I suppose, just as we do in the field.

We have, for example, in the Jamaica instance that I mentioned earlier—the AID mission director to Jamaica was in to see me just 1 week or 10 days ago, and thanked me and my people in Honduras for what they had done to make his task easier, and, in the end, far more successful.

So, we get both kinds of reactions, sir.

Senator **Leahy**. I want you to know, you have an open invitation to call me if you are finding any place where the doors seem closed. There is no way that we are going to build the consensus necessary in the Senate to get the money through for a lot of these programs unless Senator Kasten and I can tell the other Senators that money is being watched carefully.

I realize it is a little bit different from something in a blue chip corporation here in the United States, with all kinds of audit controls, and the fact that things vary in the areas where AID operates.

But if you are having any difficulty any time getting information, and you want any backup on the oversight part, do not hesitate to call me.

General **Beckington**. I will not, sir.

THE HELWAN HOUSING PROJECT

Senator **Leahy**. In that regard, we could sit here and everybody could gape at the horror stories about Helwan, but that is not my purpose.

I am more interested in where we stand on that now? Are controls being undertaken there? Can we at least know that whatever money continues to go in there, that we know where it is going and what is being done with it?

General **Beckington**. It is my understanding, Mr. Chairman, at this point, that the Agency's support of that program is at an end. It was scheduled to end in August 1988, if my memory is correct, and I am not aware that we had planned any significant additional financing of that particular housing project.

Senator **Leahy**. We are not going to see it completed? We are just walking away from it?

General **Beckington**. Sir?

Senator **Leahy**. Are we just walking away from it, or are we going to see the final project? There is an awful lot of pipes and wires just sticking up from the ground.

General **Beckington**. I think—unless there has been a very recent change, Mr. Chairman, and I will check, and if my answer at this point is in any way incorrect, I will correct it for the record, if I may—but I do not believe there is any further significant AID involvement in that project. I think it has been turned loose, in effect, and made the responsibility of the Egyptian Government.

Jim, do you——

Mr. **Durnil**. No; I think they are working with the Egyptian ministries—I believe there are three involved—to try to make the project more successful. Plus, they are doing some redesign, as I understand it.

However, at this point in time, I do not believe there is any more AID funding.

AID PROBLEMS WITH CONTROL AND USE OF LOCAL CURRENCY

Senator **Leahy**. The local currency issue you raised—accounting for it, and so on—I would be interested in any recommendations you have for us in just how we should handle the local currency problem. Please feel free to provide this for the record, if you want.

I see the potential, as you have already pointed out, for continued misuse of that, and maybe there are certain things that we should be doing specifically to make sure that it does not happen—or at least to make your job a lot easier.

General BECKINGTON. It seems to be a very difficult problem for the agency, Mr. Chairman, and I am not entirely sure, in my own mind, why that is so. Local currency accrues, as you know, from Public Law 480, title I, sales, from local currency accruing from the CIP programs and, in some instances, from local currency put up against cash transfers of dollars.

We consistently run into problems having to do with the ability of my agency to administer and effectively use those local currencies. They are not insignificant in amounts. They are real money, and it is possible, in my judgment, if we were more effective and efficient in using them, for them to make a real impact, a greater impact than they seem to now on the purposes of the Foreign Assistance Act and the tasks and duties that we have in my agency.

I am something of a "Johnny One-Note" on this, I am afraid, Mr. Chairman, in my agency. There is not all that much agreement in some parts of the agency with the concerns that I have.

Senator LEAHY. We would be interested in your recommendations.

CORRUPTION IN EL SALVADOR AID

Another area that we are going to have to look at is El Salvador. There was an article the other day that said during the past decade, we have spent about $3 billion down there. That means pouring money in at about $680 a minute.

That is for a country of around 5 million people, in a land area smaller than my own State of Vermont. And we hear that all the different officials have big homes, Mercedes cars, homes in Miami, farms, and so on.

Here is an article from one newspaper. It states, "One of Duarte's chief aides, Guillermo Antonio Akeo, built a million-dollar mansion last year, though his annual salary was only $24,000." So he is obviously a frugal man.

"He is not apologetic. After all, many other government officials and army officers have new farms, new Mercedes Benzes, new restaurants."

How would you characterize our ability to track and account for AID in El Salvador today? Again, I tell you there is nothing that is going to anger Vermonters trying to pay their bills as much as thinking that we are sending money to an area where a lot of people in my State wonder what we are doing there in the first place, and wonder how all of this money is being ripped off.

General BECKINGTON. Well, we—I want to choose my words very carefully, Mr. Chairman, because I know how easy it is for me to be surprised by something.

But we have tried to watch that economic aid program in El Salvador very closely. We have probably spent more hundreds of hours with audit teams in there on various aspects of the AID program, the economic aid program, which is the responsibility of my agency, than any other country in Central America, by far.

And we have, indeed, uncovered instances of corruption in that program. Sometimes we have uncovered them after they have been going on for a period of time. In other instances, we have uncovered some at a point in time that we think is fairly near the inception of the problem.

So I am always a bit puzzled, frankly, as obviously you are, Mr. Chairman, at some of the allegations of fraud and corruption in the American AID program in El Salvador.

I do not believe, to the best of my knowledge, that a lot of it is coming out, or much of it, or a significant amount of it, is coming out of the economic aid program, the responsibility of my agency. But I am prepared to be proven wrong later this afternoon or tomorrow.

Senator LEAHY. Thank you.

Senator Kasten.

STATUS OF A CONVICTED FOREIGN SERVICE OFFICER

Senator KASTEN. Mr. Chairman, thank you.

General, your office has been involved in the investigation and prosecution of a Foreign Service officer who, it is my understanding, continues to draw his full salary as he serves his jail term.

It is my understanding that the Foreign Service Act is written so that it is difficult to fire someone, even if he is a convicted felon.

Can you explain why the Agency for International Development is unable to terminate the employment of this employee?

General BECKINGTON. It is my understanding, Senator Kasten, that my direct involvement with that case ended on February 11, when Mr. Devon was sentenced to 6 months in prison, and fined a certain amount of money.

The Foreign Service Act of 1980, as it has been explained to me, does not permit the dismissal of a tenured Foreign Service officer, which is what Mr. Devon is, until a hearing has been held by the Foreign Service Grievance Appeals Board.

That hearing has not yet been held.

Senator KASTEN. This is notwithstanding the fact that he has been convicted by a court of law, and is presently in jail?

General BECKINGTON. That is right, sir.

Senator KASTEN. The Grievance Board requires the Agency for International Development in essence to prove the case against this individual all over again, to go through the whole process again—is that your understanding? Rather than simply introducing the evidence based on the trial that has already taken place, and in this case, that he has been convicted of a specific crime.

General BECKINGTON. Yes, sir.

I am not the best witness, of course, on this particular point. The personnel people of the Agency would be more informed in detail than I am. But I have looked into it a bit, and that essentially is a summary of the case, as you just stated it.

The Agency did, after the sentencing, place this man in a no-duty, no-pay status, I believe was the phraseology used.

Senator KASTEN. Is this before or after he went to jail? Obviously if he is sitting in jail, he ought at least to be given a no-duty status.

General **Beckington**. Well, he has been in a no-duty status, but in a pay status from a point in time late last spring or early summer, shortly—not too long before his actual indictment.

Senator **Kasten**. On the charges.

General **Beckington**. But with the sentencing in February, the Agency did attempt to place him at least in a nonpay status.

He appealed that ruling by the Agency and the Foreign Service Grievance Appeals Board ruled in his favor, and just a week or two ago, the Agency was required, in obedience to that ruling, to place him back in a pay status.

He is still, of course, in a no-duty status as a Federal prisoner.

Senator **Kasten**. Well, Mr. Chairman, this is a complicated situation which obviously does not happen every day.

It is also my understanding that the American Foreign Service Association has been defending this individual and this whole grievance process. But I hope that we can look into this particular matter, as well as into the workings of this procedure. It is my understanding that the procedure operates pretty much in secret, and that its regulations require that, notwithstanding a felony conviction, the agency must try the individual again to prove his guilt or innocence to the grievance board.

That whole process is subject to a different degree of public disclosure, evidently, than even a trial. But it seems to me that the whole procedure is something we ought to take a look at, and I want to work with you, sir, and others, so that we can see our way through this question. It just does not make sense to me.

DELETION OF AUDIT RIGHTS—PUBLIC LAW 480 EGYPT

I have a couple of other questions with regard to local currency, but they were covered by Senator Leahy.

The Agency's Asia Bureau has informed the subcommittee staff that concerning a recent Public Law 480 agreement, for the first time, you were not allowed to audit the agreement.

I am told that this is a departure from past practices, and that normally you are able to audit Public Law 480 agreements. Clearly associating myself with what the chairman said a moment ago, if your job is to audit, you ought to be able to audit.

How were you prevented from auditing this Public Law 480 agreement, and how can you assure us that that was a one-time problem which will not reoccur?

General **Beckington**. Well, as to the first part of your question, Senator, it may have happened because I did not know about it. By that, I simply mean that I did not learn of the omission until after the fact—until after the agreement was signed.

Had I been aware of it beforehand, and raised it as a question, I think it is very possible that other arrangements might have been made.

Senator **Kasten**. Could I stop you on that?

Had you been aware of the omission, might you have been able to stop it?

General **Beckington**. Yes, sir; I think that had I——

Senator **Kasten**. The key question here is, did you try to audit it, or were your people asked to audit it, and they or you decline to do so? This would not be an omission. Or did your inspectors just, if you will, forgot to audit it?

General BECKINGTON. No; what actually happened here, to the best of my understanding, is that this particular agreement which was entered into in about the January, February timeframe of this year, included, or included out, I should say, the standard phraseology in the agreement between the two governments, which is normally used and which would have fully preserved the audit rights of the AID inspector general, or the GAO, for that matter.

For reasons not entirely clear to me, a decision was made to drop the words "and audit" from the agreement. I am told that the reason for this is that this agreement must go before the Egyptian Assembly, the Egyptian Legislature, and that this is a sensitive subject for the Egyptian Government, and that therefore, they were going to preserve the audit rights in a side-letter or side-minute of some kind, which would have been perfectly all right. It is the substance of this matter that I am interested in, and not the form.

But for reasons still not clear to me, this was eventually not done, so that as of today, with respect to that particular Public Law 480, title I, agreement in Egypt, neither I nor any other—actually, in this case, sir, the U.S. Department of Agriculture Inspector General has a form of concurrent audit jurisdiction, and of course, ultimately we have the GAO.

But as of now, with respect to that agreement, which I think was about a $70 million or $80 million agreement, the U.S. Government, either in my office or any other office, to the best of my knowledge, has no audit rights whatsoever.

I am recommending to the administrator of the agency this week, as a matter of fact, that that agreement be readdressed, revisited, and some way found to——

Senator KASTEN. Has the side agreement that you referred to ever come down?

General BECKINGTON. No.

Senator KASTEN. So all we have is this, and do you know if the removal of the audit rights the subject of negotiation between our Government and the foreign government, or was the removal of the audit rights simply dropped by omission? Do you know?

General BECKINGTON. I really do not.

Senator KASTEN. I do not want to set a pattern here.

General BECKINGTON. Yes, sir.

Senator KASTEN. Now we have one out there for $70 million or $80 million, and the GAO cannot look at it, you cannot look at it, and you think that the Department of Agriculture cannot look at it, either.

General BECKINGTON. No; they cannot.

Senator KASTEN. Well——

General BECKINGTON. But I do not know the answer to your question.

Senator KASTEN. This must be the exception to the rule. We do not want to establish a form here, where if someone feels something is sensitive, he quietly removes the ability to audit.

Mr. Chairman, I do not want to pursue this any longer, but it is important that we look at this, and if legislation is necessary to ensure that this kind of action does not happen again, then I would be happy to work with the inspector general and others on this committee to put such legislation in place.

I am hopeful that such legislation is not necessary, and we can move without anything special. But let us work together, and we will follow up on this.

Mr. Chairman, thank you. I have some other questions that I would like to submit for the record.

Senator LEAHY. Thank you very much.

Senator Mikulski.

ADEQUACY OF INSPECTOR GENERAL RESOURCES

Senator MIKULSKI. Thank you.

General Beckington, you know I am one of your biggest supporters and feel that the role that you have played as the inspector general of AID has certainly been in our national and international interests.

As I look at your budget for this year, and our 2 years of upgrading your funding, I would like to ask: Do you feel that these funds are adequate? You have used the word minimally adequate. Could you elaborate on that? How minimal is minimal? Do you think it is skimpy adequate? Modest adequate, or pretty adequate?

General BECKINGTON. I would——

Senator MIKULSKI. I agree with what our chairman and ranking minority have said—the faith in the foreign aid budget is how well we make our strategic decisions, and then how well we manage the process.

General BECKINGTON. Using the selection of terms you have offered me, Senator, I would say modestly adequate might be a pretty good way to put it.

We can always use more, there is no question about that. But I think we also have to recognize that there are limits to what can be provided.

Clearly, up to 2 years ago, we were substantially below anything that would be considered a most minimum level of effort. With the increase that we will achieve here, now, within the next 4 or 5 months, the completion of that increase, we will be on a steady, even keel. If we manage our resources carefully and adequately, I think it should probably be modestly adequate.

RECRUITING AND RETENTION OF INSPECTOR GENERAL STAFF

Senator MIKULSKI. General Beckington, one of the issues that I am interested in in terms of Civil Service is work force recruitment and work force retention.

Your mission requires sophisticated personnel, unlike other inspector generals that tend to be posted in the States with travels to regional offices in Omaha and Chicago. Your inspector general field people must travel worldwide.

The point of my question is, given where we are in Civil Service and within your budget, are you able to recruit the people that you need, and are you able to retain those people who are seasoned and experienced and have the management and auditing skills and street smarts that are so important in your line of work? Because it really is often beyond the technical competency of a person.

General **Beckington**. Yes.

Up until now, Senator, the answer to both points of your question is yes. We have been able to recruit within the new limits of our staffing level the kinds of people that you have described.

We do not, in my organization, recruit junior people, by that, I mean we do not take people right out of college and bring them into the organization. We look for experienced, qualified auditors, and criminal investigators.

We then introduce them to the foreign service, and to the conditions of foreign service. In doing this, we have been quite successful, I think.

We recruit from a relatively narrow base, by comparison with the other inspectors general, because there are a great many people who are otherwise qualified, I think, who, for various reasons, family reasons and others, children of school age, one thing or another, are reluctant to uproot themselves and their families and move to some place like Dakar, Senegal, or Tegucigalpa, Honduras, and so on.

But we have been able, so far, to recruit those kinds of people, and we have, I think, a very good record so far on retaining them. And the structure that we have now, of the regional offices, is vital to me.

As I said a moment ago, we recruit from a narrow base, but that narrow base is a group of people, families, individuals, men and women, who are interested in foreign service, foreign travel, foreign affairs, and take to what we do and the way we have to do it quite well.

Senator **Mikulski**. Thank you. That is most heartening to hear.

I have one last question, and this then goes to policy.

AID PRESENCE IN EL SALVADOR

The New York Times reports that there are more than 100 AID officials working in El Salvador, and perhaps four regularly go into the countryside in slums to visit.

My question is, is that true? Do we have that many people working in El Salvador, and is there the need for more efficiency there?

General **Beckington**. I do not think I know the answer to that question, Senator.

I think the number of AID people assigned to the mission in El Salvador would be probably significantly less than 100, on a permanent basis.

On any given week, you may have additional people down there on temporary duty. There are also quite a number of Americans on contract to the Agency, and it is always possible in a newspaper article such as that that the writer has confused or not understood the distinction or the difference between and amongst those categories.

The point, I suppose, the principal point is the overall number, and I am sure that there are at least 100 or more Americans, either direct employees of AID or contract employees, in relation to various agency-supported programs, present in El Salvador.

Senator **Mikulski**. Mr. Chairman, I have other questions. I would like to submit them, if I could, for the record.

Senator **Leahy**. Of course.

Senator **Mikulski**. I am supposed to have a conference call with Mayor Schmoke, and I am going to have to excuse myself—the mayor of the city of Baltimore.

Senator **Leahy**. No foreign aid money up there.

Senator **Mikulski**. General Beckington, once again, let me thank you for the work that you are doing, and we hope that it is modestly adequate, and not simply adequate.

General **Beckington**. Thank you, Senator.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. General, I will also have questions for the record.

Again, I appreciate the work that you are doing, and I appreciate the cooperation I have had from your office, when we have had questions, and I look forward to working with you throughout the year.

Thank you, sir.

General **Beckington**. Thank you, Mr. Chairman.

Senator **Leahy**. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

A.I.D.'S ATTITUDE TOWARD THE INSPECTOR GENERAL

SENATOR LEAHY: General Beckington, as Inspector General, you have substantial autonomy in carrying out your duties without having to answer to A.I.D. management. That is essential if you are to do your work effectively. But, in my opinion, to be good at what you do, you have to be a junk yard dog...and junk yard dogs aren't usually very popular.

How would you characterize the attitude and responsiveness of A.I.D. personnel to your office and the work of your auditors and investigators? What kind of cooperation do your people get? Do you have any problems getting access to documents and information, for example? Do Agency personnel respond freely to interviews when your auditors and investigators are on the trail of problems?

Would you please discriminate in your answer between A.I.D.'s top management on the one hand, and A.I.D. professionals, both in Washington and in the field on the other?

GENERAL BECKINGTON: Expanding a bit on my earlier response to the points you raise, Mr. Chairman, my auditors and investigators do routinely get generally good cooperation from A.I.D. employees both here at home and overseas. It may not always be enthusiastic and we often have to dig, but rarely, if ever, is cooperation less than adequate. For example, I cannot recall a single instance of an attempt to deny us access to records or individuals. With A.I.D. contractors, grantees and host governments we do encounter a problem now and then. Usually, however, it is temporary and proves to be resolvable.

HELWAN HOUSING PROJECT

SENATOR LEAHY: General Beckington, when I visited Egypt in January of this year, I visited the Helwan Housing Project on the outskirts of Cairo. Frankly, I was dismayed at what I saw. A project to build over 7,000 units of low-cost housing for the poor, started over ten years ago, costing some $130 million still was unfinished, with only a handful of apartments occupied.

What is your assessment of the Helwan Project? What went wrong there? What did your auditors and investigators find? Did you see any evidence of fraud or abuse by Americans or Egyptians involved in this project? Do you foresee any further investigations of that project to determine whether there is anything other than gross mismanagement and incompetence at work?

GENERAL BECKINGTON: Our audit of the Helwan Housing Project identified lengthy delays in project implementation and questionable management decisions regarding site selection, engineering, types of units to build and other areas of project planning. We did not identify any fraud but we did find theft of project equipment. The real problem in our opinion was the serious mismanagement of the day-to-day activities by the Egyptian government and the almost complete lack of oversight and on-site monitoring by the A.I.D. Mission. We do plan to follow the project to see that our audit report recommendations are acted upon and keep an eye on project progress.

SENATOR LEAHY: How is A.I.D. responding to your findings and recommendations regarding Helwan? Do you see serious actions being taken to prevent a recurrence of this disaster in Egypt or elsewhere?

Do you have any recommendations to this Subcommittee about Helwan?

GENERAL BECKINGTON: In response to my audit report the Mission in Cairo, the Bureau in Washington, as well as the A.I.D. Administrator, have undertaken a lessons learned exercise designed, of course, to prevent a repetition of the Helwan experience. Obviously this is a normal bureaucratic response in an instance of this kind. I don't question the good faith of such assurance; however, I am skeptical that I've reported on the last of this kind of fiasco. This was a host country directed project with clearly ineffective, inadequate A.I.D. involvement. The results which you saw with your own eyes speak for themselves. Helwan illustrates a very basic flaw in A.I.D.'s operational procedures--the heavy reliance on the host country contracting method of delivering U.S. economic aid. My specific recommendation, Mr. Chairman, in response to your question, would be to suggest a complete review of A.I.D.'s use of the host country contracting methodology. It has been consistently a problem and nowhere more so than in the large Egypt program.

LOCAL CURRENCY PROBLEM

SENATOR LEAHY: General Beckington, your testimony on the problems of management of, and accountability for local currency is extremely disturbing. It looks like millions of dollars worth of local currencies generated from U.S. aid programs are disappearing into the treasuries of foreign governments with no serious accounting for what happens to the money.

What actions have you recommended to A.I.D. management about the problems of local currencies? What has been the response?

GENERAL BECKINGTON: Our audit reports over the last several years have included numerous recommendations on a variety of local currency issues. Recommendations have been made to correct delinquent deposits or even the failure to make deposits and to correct exchange rates used in computing deposits. Recommendations have been made to correct problems in accounting for local currencies, placing local currencies in separate accounts and ensuring that the local currency is used for agreed upon purposes. In general, A.I.D has moved to correct problems and implemented our recommendations. We do have one area of disagreement. A.I.D. managers believe that local currency accruing from A.I.D. funded activities is owned by the host country and because of this ownership issue A.I.D. can be limited by the host government in verifying the actual use of these monies. We can require these governments to report on the use of local currencies but we cannot without the permission of the host government examine their internal records to verify the reported use. I remain concerned that the effective and efficient use of local currencies continues to elude us with a concomitant erosion of the impact of limited aid appropriations. I believe this is a subject the subcommittee might wish to explore in more detail.

SENATOR LEAHY: What measures can you suggest to this

Subcommittee for dealing with this very disturbing problem of accounting for the use of local currencies flowing from our aid programs?

GENERAL BECKINGTON: I suggest that the Subcommittee look afresh at the whole concept of how local currency is acquired, the ownership issue, the allowed uses of local currency in support of the objectives of our foreign aid program and the locus of responsibility over accountability for the resource. From the standpoint of my legitimate concerns for the integrity of our aid resources I have questioned, for example, the wisdom and utility of dumping large amounts of aid-related local currency into the general treasury of a debt-ridden, inefficient, developing country.

A.I.D.'S FINANCIAL CONTROL AND ACCOUNTING CAPABILITIES

SENATOR LEAHY: The Administrator of A.I.D. is trying to strengthen A.I.D.'s capabilities to monitor and account for what happens to its funds. How would you rate A.I.D.'s current capabilities to manage and account for the use of funds, both here in Washington and in the field?

GENERAL BECKINGTON: A.I.D. does have persistent problems in accounting for and controlling funds. We have year after year reported problems in cash advances, financial reporting, reviews of unliquidated obligations and reviewing expenditure data. The A.I.D. Comptroller is responding to our recommendations but many problems persist.

SENATOR LEAHY: Are your views and suggestions being solicited by A.I.D. management?

GENERAL BECKINGTON: From time to time my views on a question or issue are solicited. When I reply to these solicitations I do so in an advisory tenor since, by law, an Inspector General is not a policy making officer. My formal findings and associated recommendations are contained in the audit reports issued by my office on a regular basis. These in their totality year by year constitute the clearest statement of my "views and suggestions" to A.I.D. management.

IG OPERATIONS ABROAD

SENATOR LEAHY: General Beckington, how much progress are you making in moving more of your auditors and investigators abroad? Is A.I.D. cooperating in your setting up regional Inspector General auditing centers? How important is it for your work in basing more of your people abroad?

GENERAL BECKINGTON: I think the issue of my overseas regional office structure and organization is finally well in hand. I now have full support on this from the Administrator of A.I.D. The State Department, for which this has long been a contentious subject, seems now to have accepted the regional organization as a valid requirement for the A.I.D. Inspector General. The Congressional concern over this issue, particularly that of this Subcommittee, has been crucial in what I now hope is a final resolution. The overseas regional office structure is critical to my ability to carry out my duties and responsibilities. Without it the Inspector General function in A.I.D. would be seriously degraded. This Agency is the only agency of the Federal Government whose program responsibilities are totally oriented overseas. For A.I.D. that is where the action is and where the Inspector General must be.

SENATOR LEAHY: You are authorized 240 full time employees now, thanks to this Subcommittee, among others. How soon do you expect to reach that staffing level, and what will be the breakdown between auditors and investigators versus management, administrative and support personnel?

GENERAL BECKINGTON: We are progressing in recruitment and plan to be fully staffed at the 240 level by September 30, 1989. Of the 47 increase directed by the Congress, 40 were allotted to the audit and investigative offices and 7 to administration.

SENATOR LEAHY: Of the 240 positions, how many will be based abroad and how many will be based in Washington?

GENERAL BECKINGTON: The split is currently 50-50, with 120 overseas and 120 in Washington. The Washington figure includes 26 security positions, a totally Washington based function.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

DUPLICATION OF FUNDING

SENATOR MIKULSKI: In some countries it is clear that we are funding many different organizations to do the same thing or funding work already being done by others.

What sort of central clearinghouse does A.I.D. have to prevent duplication of effort? Central computer? Link-ups with regional offices?

GENERAL BECKINGTON: I am not aware of any instance where A.I.D. is paying for the same project or cost that another donor is paying. It is quite common to have multilateral projects and cooperate with other donors in accomplishing a particular developmental objective. We do not pay for the same cost as other donors. A.I.D. may provide the equipment and other donors may pay, for example, the salaries of the local workers. A.I.D does have a very modern computer system which provides the details of all our foreign aid projects, contracts and grants around the world. This system can be accessed by most of the A.I.D. missions around the world.

INCREASED EFFICIENCY

SENATOR MIKULSKI: Two years ago I asked you what basic steps we could take to increase efficiency within the agency. You replied, ". . . we probably need fewer projects in a given country; less ambitious projects; less complex projects."

How are we doing in this respect?

GENERAL BECKINGTON: It is my understanding that A.I.D. is attempting to reduce the number of projects and concentrate on larger dollar projects that are not that complex. However, there is a large number of projects already in the system--the pipeline. Until this gets worked out, in my opinion, there will remain too many projects for A.I.D. managers to properly control and manage.

A.I.D. STAFFING IN WASHINGTON

SENATOR MIKULSKI: A former director of A.I.D. once charged that our foreign aid program was overstaffed, overpaid and over here.

Have you ever done an analysis on how many A.I.D. officers should be stationed in Washington and how many in our missions abroad?

Have you ever studied the amount of time A.I.D. personnel spend in the field--truly in the field--rather than in their offices in the capital where they are posted?

GENERAL BECKINGTON: No. My office has not done any studies or analysis of the adequacy or location of the A.I.D. staff, overseas or Washington, D.C. My auditors do time and time again visit projects out in the field and find that project officers or staff have rarely, if ever, visited the project to provide supervision or assistance. Many of the problems we find could have been identified or even prevented if adequate monitoring or on-sight visits been made.

MONITORING AID TO EL SALVADOR

SENATOR MIKULSKI: The New York Times reports that more than 100 A.I.D. officials work in El Salvador, "but perhaps four regularly go into the countryside and slums where most Salvadorans live, according to several American officials."

Also according to the Times, "Nearly 100 embassy audits are now trying to trace how government officials stole American aid money."

Is there really a problem with getting A.I.D. officials to go out into the countryside, as the first statement claims? Is the Salvadoran A.I.D. account so jumbled that we cannot account for all of our aid?

GENERAL BECKINGTON: A.I.D. has about 70 Americans associated with the A.I.D. Mission to El Salvador. Thirty-eight of these are the authorized staffing for U.S. direct hire employees of A.I.D. and the balance are under personal service contracts with the Mission.

The security situation in the countryside does inhibit travel by Mission staff and makes normal oversight far more difficult than would be the case in the absence of hostility. In-country travel from day to day is essentially guided by Embassy security officials.

My regional office for Latin America located in Honduras maintains a very full schedule of audit oversight of the El Salvador economic aid program. This includes a large non-Federal audit program directly supervised by the Regional Inspector General. For example, in April we had about fifty of these audits in progress. These do routinely include a substantial number of site visits. In our Inspector General experience I find the A.I.D. Mission concerned and alert to accountability, compliance and integrity issues and responsive to audit findings.

USE OF CONSULTANTS

SENATOR MIKULSKI: I recognize that A.I.D. must rely heavily on consultants, but I have received repeated complaints that on many, many of its projects A.I.D. will hire Washington consultants who then in turn hire other consultants to do the work. In some cases the secondary consultants hire a third layer.

Have you tried to get a grip on this problem? Is there a way we can remove some layers of wasted spending?

GENERAL BECKINGTON: A.I.D. does make fairly extensive use of consultants--particularly in certain disciplines where the Agency's direct hire staffing is particularly thin. I conduct the annual audit of the Agency's employment of consultants as required by law and have reported a number of deficiencies to the Congress from time to time as a result of these reviews. I am not aware of the layering issue you raise. I would suggest, Senator, that if you receive such a complaint that appears to you to be well founded you consider reporting it to me for inquiry.

CONTROL OF LOCAL CURRENCY

SENATOR MIKULSKI: Last year as we discussed some of the problems related to efficient uses of local currency, I discovered to my surprise that A.I.D. considers local currency to be owned by the host government.

You said that there was some uncertainty about this interpretation and that A.I.D.'s General Counsel was evaluating the legal basis for control of the funds.

Have you reached any conclusion?

GENERAL BECKINGTON: No. We continue to discuss with A.I.D. policy officials many aspects of local currency control and accountability. At the current time we have really agreed to disagree on local currency policy. Eventually legislation may be required to clarify several areas of local currency policy, such as ownership. If we plan to control or direct the use of local currency accruing from our cash transfers and commodity import program into development purposes, some changes are needed. It is almost impossible to control something you do not own.

SENATOR MIKULSKI: Last year I brought up your finding of the year before that A.I.D. was not getting the most favorable rate of exchange on our funds, particularly in Central America. You said at the time that you thought the problem had been solved but would bear watching.

Has the problem resurfaced since then?

GENERAL BECKINGTON: A.I.D. has moved to straighten out the exchange rate problems we found a couple of years ago. We do find on occasion problems in exchange rates but this is not systemic and nowhere near the problem it had become in earlier years.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN

OWNERSHIP OF LOCAL CURRENCY

SENATOR KASTEN: General Beckington, a number of your reports concern problems associated with the use of local currency. You have correctly emphasized that local currencies flowing from our foreign aid program are a very valuable resource which must be better handled by the agency. You have uncovered a number of cases recently--the more well known ones being in Costa Rica and Ecuador--which show an almost total disregard for accountability of these funds.

How exactly do you think that the agency should account for and handle these funds?

GENERAL BECKINGTON: My auditors around the world continue to find problems in almost all aspects of local currency. A.I.D. managers have a difficult time in accounting for and controlling local currencies--what I consider to be a valuable foreign aid resource. A.I.D. policy makers have taken the position that local currency accruing from our foreign aid programs is not owned by A.I.D. but the host governments. This is the cause of many of the problems we find. It is difficult, if not impossible, to control something you do not own. The Foreign Assistance Act requires that 50 percent of the local currencies accruing from Commodity Import Programs be used for development purposes. How can A.I.D. direct or control the use of these local currencies into development purposes if it is owned and controlled by the host government? I believe we need to take a hard look at what the U.S. Government really wants and expects in this area. The Congress may wish to review the current legislation respecting foreign aid local currencies.

SENATOR KASTEN: Have you tried to sit down with the management of A.I.D. to develop a procedure for the handling of these funds?

GENERAL BECKINGTON: Yes. A.I.D. established a task force to review many aspects of local currency. My office had a representative on the task force and we were active in the group's deliberations. However, we basically agreed to disagree on the ownership issue which I see as the heart of the problem.

SELECTION OF CONTRACTOR IN EGYPT

SENATOR KASTEN: General Beckington, I and a number of my colleagues requested that you look into a matter involving an Egyptian contract where there was a question about why the "best and final" selection was increased from three to six firms. My understanding is that you did not explain why this was done but that the A.I.D. Mission Director promised to provide you with an explanation.

Has that explanation been provided and is it satisfactory in describing why the best and final was changed from three to six firms?

GENERAL BECKINGTON: Yes. The Mission Director has now finally provided me an explanation and documentation of the procedures followed in the best and final offer selection process. Based on this information I have not found any impropriety in the process.

REGIONAL OFFICE LOCATIONS

SENATOR KASTEN: General Beckington, it appears that we have finally broken the resistance of both O.M.B. on budgetary matters and the State Department on office locations and personnel numbers. Do you agree with that assessment?

GENERAL BECKINGTON: I would agree, Senator, with respect to the State Department's acquiescence to the overseas regional office locations and staffing allowances which this Subcommittee has so consistently pursued. On the question of budget levels, O.M.B. has been growing suppportive although they continue, as you would expect, to scrutinize my request very thoroughly.

OFFICE OF FOREIGN DISASTER ASSISTANCE

STATEMENT OF JULIA TAFT, DIRECTOR

FAREWELL TO DIRECTOR TAFT

Senator **LEAHY**. Ms. Taft, I am delighted to have you here.

I understand this may be your last appearance before this subcommittee, and you may soon be leaving AID.

I wish both you and Will the best on your new assignment. I may even be seeing you there on occasion. But you have had a lot of accomplishments here as the head of the Office of Foreign Disaster Assistance. Your work in bringing humanitarian help to the victims of the Jamaican hurricane in September 1988 and the Armenian earthquake in December 1988, represent some of the finest hours of the Office of Foreign Disaster Assistance.

On both occasions, while you were directing these activities, I called Mr. Woods and specifically mentioned you and mentioned what a great job I thought you were doing. I certainly heard a lot about those relief efforts from people in my own State.

I think that probably what you do during a disaster is one of the best arguments for foreign aid, and I hear that over and over again.

Basically, as a Nation, and this goes right across the whole political spectrum, I think the American people want to help out when they see something like that. Especially today when disasters are far more immediate, with live television and everything else we see about it. So they are happy when they see you—and through you, the United States of America—stepping in. I compliment you on that.

You can be proud of the tenure you have had here.

SUMMARY STATEMENT OF JULIA TAFT

Ms. **TAFT**. Thank you very much. That is very nice, for both you, and also you, Senator Kasten, to say.

It has, indeed, been a very intense experience, but a very rewarding one. I have worked in Government off and on for 19 years, and I have never been in a job where I could measure every day, and have my staff measure every day, progress at really getting help to people.

I think that the visibility of the disasters that we have had does touch the American people. We get letters and checks—not checks from Congress, but we get checks from people saying: "Would you pass this on to your favorite charity that is working on the various disasters?"

And we do know that it has a great resonance to it, because it does represent our humanitarian program.

I do have a formal statement that I would like to present for the record, but if you do not mind, I will just say a few words about this past year.

Since coming here last year, we have had 60 disasters. You highlighted some of the largest ones—the Bangladesh floods, with 28 million people affected; the Jamaica hurricane, hurricane Gilbert; probably the most poignant and dramatic one that I was ever involved in, of course, was Armenia.

But I would like to tell you a few things about the disaster avoidance that we worked on this year, because I think it indicates something that is kind of new in our field, and the way we are able to invest some moneys to avoid huge disasters.

Last year at this hearing, 99 percent of the discussion was focused on the locust plague in Africa and the Near East. We were seeing the emergence of a plague of desert locusts that had been unparalleled in 50 years, and in fact, there was a prediction that the plague would take 7 to 10 years to control.

It got worse, and we worked very closely with a number of members of your staff in trying to figure out what our policy and our approach should be. I want to thank them all for helping.

Basically what the United States was able to do was to galvanize the best technical assistance that we could find, that we actually had used also for the grasshopper program a couple of years before—the best technical experts, entomologists from the U.S. Department of Agriculture, aerial spray specialists and logisticians from the U.S. Forest Service. We got environmentalists and pesticide experts from the Environmental Protection Agency, and we mobilized the best campaign you could imagine.

We targeted it very well in several major countries in Africa, and provided, I would say, the technical leadership and foundation for an international effort, spearheaded by the United Nations Food and Agricultural Organization, which, in fact, now has resulted in the demise of the plague, ahead of schedule and under budget.

I am very pleased about that, and it is one of those success stories of AID that I think we really were able to accomplish.

The second disaster avoidance was Ethiopia. In 1984–85, we all were riveted by the pictures of starvation in Ethiopia. When all signals indicated that 1987 was going to be a repetition of that event, we mobilized with the United Nations and with the private voluntary agencies, and we invested money and food and technical assistance early on. As a result of that, last year, the predicted starvation of 5 million people did not occur.

We are struggling right now with the problems in Sudan—again, another civil strife and potential famine situation. It has been really very difficult, but the United States has set the pace, in not only prepositioning enough food but also in arranging for airlifts, arranging for nongovernmental organizations and private voluntary agencies to work on medical programs and distribution. In spite of the difficulties that we have every day, we are going to be able to indicate that the world has saved perhaps a quarter of a million people this year in Sudan. We are working very closely with the United Nations in their Operation Lifeline Sudan, as well as with the International Committee for the Red Cross, and the wonderful PVO's that are our implementing agencies.

PREPARED STATEMENT

Those are the highlights. For fiscal year 1990, we are requesting $25 million, and I can tell you that every penny of that will be spent well.

I am pleased to answer any questions that you might have.

[The statement follows:]

STATEMENT OF JULIA V. TAFT

It is a pleasure to be here today to present the Administration's fiscal year 1990 request for International Disaster Assistance. The past several years have been a time of continuing devastation and human suffering resulting from natural and man-made disasters. The number of disasters in 1988 prompted the Secretary General of the United Nations to note that, indeed, last year was one of unprecedented levels of disasters throughout the world. The major earthquake in Armenia was unusually tragic in death toll and injury. Hurricane Gilbert devastated Jamaica and the Mexican Yucatan Peninsula. There have been two cyclones in the Philippines and one in Western Samoa. Locust and other insect infestations have plagued six African countries; floods have occurred in Bangladesh, Indonesia, Sudan, Thailand, Gabon and the Philippines; food shortages impacted the disadvantaged in South Africa; drought affected Togo; epidemics occurred in Togo and the Comoros; civil strife is worsening in Sudan, Somalia, and Mozambique; and several other disasters created problems to which the Office of U. S. Foreign Disaster Assistance (OFDA) provided immediate assistance. These events have claimed thousands of lives throughout the world and have affected hundreds of thousands more. At the same time, millions of people continue to be at risk due to possible further insect infestations, drought, civil strife, fire, epidemic, earthquakes, and volcanic eruptions.

During the first half of this fiscal year, we have responded to 26 new disasters involving $19.8 million in emergency relief assistance. We have been operating under our annual budget of $25 million, with $2.6 million in carry-over funds from prior-year appropriations. This has been augmented this fiscal year by our borrowing authority. As you know, in extraordinary circumstances, our existing legislative authorities and supplemental appropriations are used to meet humanitarian disaster relief assistance to stricken nations.

We are trying to reduce our costly commodity deliveries and equipment expenditures and continue to provide search and rescue technical expertise and specialized technical assistance in disaster management and logistics operations. The recent Armenian earthquake emphasized the need for this new approach. We believe this concentration on using U.S. experts with unique knowledge and skills directed toward addressing actual and impending crises is one of the more dynamic, cost-effective, life-saving contributions we, in A.I.D., can make. The provision of rapid, appropriate emergency relief supplies, logistics support and on-site communications, however, remains our main thrust and highest priority in responding to major disaster.

The following are brief descriptions of some of the major disasters of the past few months and the type of assistance provided by the U.S. Government.

CIVIL STRIFE AND STARVATION IN SUDAN

Mr. Chairman, in the Sudan the world is witnessing a deplorable human catastrophe, where people are dying for lack of food, water, medicines and medical care. The tragedy is the result of a protracted civil war. There is food in Sudan, but the geographic complexities, logistical inadequacies and the continuing civil conflict, conspire to prevent relief from reaching the innocent, non-combatant civilian population in need.

We estimate that between 2.1 and 2.7 million Sudanese have been displaced by their country's civil war and that up to two million southern Sudanese remain at risk. A host of political and logistical constraints continue to hinder the international relief effort. We are encouraged by the more direct role the United Nations has taken under Operation Lifeline Sudan. The U.N. has obtained agreements from both the Government of Sudan and Sudanese People's Liberation Army (SPLA) to move relief assistance to those in need on both sides of the conflict.

OFDA has worked closely with the United Nations and other donors to ensure the success of the U.N. effort. The U.S. Government funded relief effort, which has been folded into the Operation Lifeline plan of action, has provided 150,362 metric tons (MT) of emergency food, valued at $43,180,500, since February 1988. To help position this food assistance, OFDA has provided relief supplies, communications equipment, operational teams, and grants to support governmental and non-governmental organizations, totaling more than $14.5 million. OFDA-led operational teams, launched vital relief airlifts to Abyei and Aweil, and helped to implement a comprehensive plan for prepositioning P.L. 480 food in southern Kordofan and Bahr el Ghazal provinces. OFDA has also supported relief programs moving food and other assistance into southern Sudan from Kenya.

We are cautiously optimistic with the pace of our relief program. We will continue to work closely with the Government of Sudan, the SPLA, the United Nations, other donors and the private voluntary community to ensure that we do not see a repeat of last year's tragic famine.

CIVIL STRIFE AND FOOD ASSISTANCE IN MOZAMBIQUE

For the sixth straight year, OFDA has provided vital humanitarian assistance to the civil war-torn country of Mozambique. According to the Government of the People's Republic of Mozambique, eight million people are dependent on donor food aid this year. Of this number, 4.8 million are severly affected and require free food distribution.

Malnutrition is on the rise and recently there have been reports of starvation in several districts. At the May 13-14, 1989 Donors Conference, international donors pledged over $320 million in assistance. The U.S. Government was the largest donor, pledging approximately $100 million in food, emergency, and rehabilitation assistance. Recently, OFDA began funding an emergency food airlift into Gile district, where eight to ten persons were dying each day before the airlift. In FY 1989, OFDA plans to provide $5 million worth of assistance in the form of grants to U.S. private and voluntary organizations (PVOs) to operate several relief and rehabilitation projects. The A.I.D. Bureau for Africa will fund other U.S. PVO projects in Mozambique.

HURRICANE STORM DAMAGE IN JAMAICA

Jamaica endured its worst calamity of the century on September 12, 1988, when Hurricane Gilbert ravaged the island's 144-mile length, leaving trails of destruction. Four hours of battering winds and ten inches of torrential rains flooded streets, ripped rooftops from homes, cut communications outside Kingston, downed power lines, flattened crops, and damaged hotels vital to the tourist industry. Most damage occurred on the western and eastern extremities of the island. In total, Hurricane Gilbert killed 49 people, made 810,000 homeless, and left an estimated $1 billion in damage to infrastructure and the economy.

As news of the hurricane reached Washington, OFDA mobilized its staff into a 24-hour operation and readied a team of specialists and emergency supplies for an immediate response. As soon as the major force of the hurricane passed over Jamaica, OFDA dispatched the team which had been prepositioned in Miami. On September 13, the U.S. Ambassador declared a disaster; that same day, the team arrived to assess the situation and provide support to local relief operations. A total of six airlifts were dispatched between September 14 and 15 carrying plastic sheeting, tents, water jugs, water tanks, chain saw kits, and cotton blankets from the OFDA stockpile in Panama. OFDA sponsored the loan of a U.S. Forest Service technician and radio equipment to help set up emergency communications throughout the island, and provided 600 MT of roofing material. OFDA also paid for the transport of a Florida Light and Power team with equipment that repaired electric lines connecting Kingston to the Norman Manly airport. An OFDA-sponsored group with U.S. Government and PVO representatives visited Jamaica for five days in early December 1988 to gather lessons learned, especially regarding the appropriateness of unsolicited relief supplies donated by concerned Americans. In medium and long-term reconstruction aid, the U.S. Government donated $20 million for FY 1988 which was programmed through OFDA and administered by the A.I.D. Mission in Kingston, and $35 million for FY 1989 obligated by the Latin America and Caribbean Bureau of A.I.D. and also administered by the A.I.D. Mission. These funds are being used in the areas of shelter, power, water, health, agriculture, and grants to Jamaican non-governmental organizations. U.S. Government aid provided by A.I.D. to Jamaica following Hurricane Gilbert totalled $52 million in FY 1988, and $99.2 million is planned for reconstruction activities in FY 1989.

EARTHQUAKE DEVASTATION IN ARMENIA

The world was shocked and saddened on December 7, 1988 by news of the massive destruction and loss of life caused by a powerful earthquake in the Soviet Republic of Armenia. Over 50 towns and villages were leveled, including the town of Spitak with a population of about 30,000. The larger cities of Leninakan and Kirovakan sustained heavy damage as multi-story apartment buildings, factories, schools, and offices were reduced to mounds of rubble within seconds, trapping and killing thousands of people. The official estimates give some idea of the dimensions of the tragedy: 25,000 dead, 130,000 injured, 514,000 homeless, and over $13 billion in damages.

The response of governments and private voluntary organizations around the world was both generous and immediate. The U.S. Government was one of the first to offer assistance, and OFDA and the State Department quickly mobilized to respond if the U.S. offer were accepted. The U.S. Chargé in Moscow declared a disaster on December 8, and the Soviet Embassy authorized a U.S. relief flight the following day -- the first time the U.S.S.R. had accepted disaster assistance from the U.S. Government since World War II. The earliest of the eight relief flights arranged by OFDA carried representatives from OFDA and the State Department, search and rescue personnel and support equipment, trauma specialists, a shelter specialist, and representatives from Armenian groups. The U.S. search and rescue team extracted two live people from the Leninakan ruins who had been trapped under rubble for five to six days after the quake. Subsequent flights transported relief supplies, such as tents, cots, plastic sheeting, blankets, and rescue gear from A.I.D. stockpiles in New Windsor, Maryland, and Leghorn, Italy, and medical supplies from U.S. military stocks in Europe. OFDA later dispatched a follow-on operations team (December 16), comprising representatives from A.I.D./OFDA, PVOs, and Armenian- and Russian-speaking pharmacists to help with the distribution of U.S.-donated supplies. OFDA assistance amounted to nearly $2 million. The Department of Defense also independently arranged several flights to transport American-Armenian community donations to Yerevan and to assist with Project Hope's medical evacuation of critically injured earthquake victims to the United States. The total of all U.S. Government assistance was approximately $4.5 million. The U.S. private sector also provided an estimated $12.5 million of relief assistance to the Armenian earthquake victims.

LOCUST PLAGUE IN AFRICA

In the summer of 1986, forecasters predicted that major infestations of desert locusts had reached plague proportions and would continue for 7-10 years, extending from Mauritania to India. Today, while the geographic area threatened is not reduced, entomologists are cautiously optimistic that intensive control operations to date may have significantly reduced locust population growth such that this summer we hope to see a decline in the intensity of the infestations.

While it is still too early to predict the ultimate course of the plague, it is clear that the locust populations have been significantly reduced as a result of timely assistance, particularly in Senegal, Mauritania and Morocco in the fall of 1988, and more recently in Saudi Arabia. More importantly, there has been no quantifiable crop loss in Africa from the locust infestations. In fact, the Sahel and Sudan have harvested bumper crops in the last two years.

While forecasters predict that infestations in 1989 will most likely be less than in 1988, it is important that we remain vigilant throughout the 1989 crop seasons. OFDA is now reviewing a United Nations Food and Agriculture Organization (FAO) proposal to create an International Action Force to attack locusts in their traditional breeding areas, before they reach the crop lands. This proposal to the donor community could set the stage for a final push to reduce locust populations to sub-plague levels in 1989.

Since 1986, OFDA has coordinated with the international donor community in responding to desert locust emergencies in Sahel, East and North Africa, and the Middle East. OFDA's goal has been to assist National Crop Protection Services do a better job of finding and controlling locusts, thereby protecting crops and reducing the overall plague population. In programming its inputs to these emergencies, OFDA has emphasized providing technical assistance to ensure that U.S. Government-funded activities adhere to pesticide handling and application standards which promote worker safety, and ensure the most efficient and environmentally safe application of pesticides.

IMPROVED DISASTER PLANNING

With regard to our preparedness portfolio, throughout the past year we have concentrated on disaster management skills training as well as hazard vulnerability studies. We are now more confident than ever that A.I.D. Missions in the disaster-prone countries are more aware of disaster threats, and their vulnerability, and are cognizant of the need to integrate disaster vulnerability analysis and strategic planning into their programs and country development strategies. OFDA is working with A.I.D.'s regional and central bureaus to increase their program attention toward disaster mitigation such as improved seismic building practices in rehabilitation housing programs. Other examples include exploring flood mitigation techniques for Bangladesh in the aftermath of the recent devastating floods. We have worked with Morocco on an Economic Support Fund (ESF) program for locust control, and continue to support the Bureau for Africa's leadership in mobilizing crop protection training and support for locust control and pesticide handling in the Sahel. We firmly believe disaster mitigation and response must be a cooperative effort with A.I.D.'s bureaus, given the relationship of disasters to A.I.D.'s long-term development interests. We are working with the geographic bureaus, especially as they assume more responsibility for chronic disasters of an ongoing nature which can be seen as problems of development.

OFDA FY 1990 Appropriations Request

Mr. Chairman, the Office of U.S. Foreign Disaster Assistance (OFDA) is requesting $25.0 million for the fiscal year 1990

International Disaster Assistance Program. The proposed program requirements include $19.0 million for indeterminate worldwide disaster relief and $6.0 million for scheduled activities such as: (1) OFDA operational support (including logistics, communications and early warning systems), (2) technology transfer, (3) improving host country disaster-response capabilities and (4) mitigation activities. These programs are all designed to increase the cost-effectiveness and prudent allocation of emergency relief assistance in times of crisis.

OFDA's emergency relief coordination capability will be further improved in fiscal year 1990 due to improved standard operating procedures within OFDA, operational regional and global communications systems, and full implementation of disaster procedures in cooperation with the Department of Defense regional commands.

Declared disasters are managed by OFDA senior staff. We will continue to use knowledgeable A.I.D. Washington regional bureau personnel and field mission expertise in linking the most appropriate disaster response to strategic planning for development. In fiscal year 1990, OFDA will be capable of operating and maintaining portable communications systems between disaster sites, A.I.D. Missions, and Washington, including on-site disaster data transmissions and instantaneous voice communications.

A number of objectives will be pursued by OFDA's Operations Divisions in fiscal year 1990 in support of the geographic divisions. These include the following: (1) refine OFDA's operational response criteria as a result of recent disaster relief experience, (2) revise action procedures to reflect lessons learned, (3) improve emergency planning based on disaster type and increased warning lead times, (4) explore increased use of local currency for local purchase of emergency commodities, and (5) provide training to assure readiness to deploy search and rescue assistance teams when necessary. In addition, OFDA will continue to (1) stockpile light extrication search and rescue equipment, (2) network emergency medical and mass casualty experts, (3) establish co-funding agreements with other agencies of government, and (4) enhance contingency planning at the regional and host country levels. We will also continue to pursue a variety of donor coordination efforts with private and voluntary organizations, international organizations and other countries, which will result in improved stockpiling, needs assessment and response coordination. We will continue to use OFDA funds to leverage and facilitate expanded private sector donations.

Clearly, by September 1990, OFDA's relief and rehabilitation strategy will have integrated these initiatives into a fully coordinated U.S. Government rapid "first response" capability which (1) saves lives and reduces suffering, (2) clearly demonstrates U.S. humanitarian concern for victims of foreign disasters, and (3) demonstrates U.S. Government operational technical assistance including a search and rescue cadre in support of host country crisis management.

Mr. Chairman, I am pleased with the performance and progress made by the Office of U.S. Foreign Disaster Assistance during fiscal year 1989 and am hopeful that, given the requested resources, in the future we can continue to assist those afflicted by disaster abroad. I can assure you today of our continuing dedication and perseverance in coordinating the U.S. Government response to foreign disasters. We are committed to saving lives and to meeting the critical needs of disaster victims in times of crisis. With your continued support, we can achieve the goals and objectives outlined in our fiscal year 1990 Congressional Presentation.

REQUEST LEVEL FOR DISASTER ASSISTANCE

Senator **Leahy**. It is the budget request that I want to ask you about.

I am told that every year for the past 18 years, there has been a request for $25 million for international disaster assistance. There is authority to use up to $50 million in other AID funds for disaster relief.

In fiscal year 1987, you spent $86 million. In 1988, $77 million. You say that the incidence of disasters worldwide is demonstrably escalating. Why is the administration requesting only $25 million again?

Ms. **Taft**. The request is $25 million for a number of reasons.

And one of them is that it is not just $25 million. As you indicated, it is really $75 million, if we have to borrow $50 million more.

In the year that you indicated, 1987, when there was more than $80 million spent—part of that was not borrowed. That included a special appropriation of $50 million for the El Salvador earthquake.

That $75 million is a lot of money, and we feel that we can certainly live within that. Many years, we do not have to go much above the $25 million.

You are correct; we have gone over the $25 million during my tenure. But I think $25 million plus the $50 million is adequate.

Senator **Leahy**. But to borrow the $50 million, you have got to ask well in advance. I mean, you do not——

Ms. **Taft**. Well, I have borrowed already this year.

Senator **Leahy**. You do not know when volcanoes are going to blow, cyclones are going to hit, and whatever else it might be—an earthquake, and so on.

I mean, would it not be better just to have it in the account to begin with?

Ms. **Taft**. We are exploring a variety of options here. One of the problems is the way that our account is scored.

Whatever we get, we spend. But we are trying to look at doing things a little differently, and I do not think this is necessarily an inappropriate place to discuss this.

Sure, we only have $25 million, but we have excellent authority to be able to draw on Federal agencies for support, and one of the things I have found most exciting and most rewarding about OFDA is that, in addition to the 25 people on our staff, we have access to experts governmentwide. We have had 60 disasters this year. They are all different—with different needs.

What we need to do, without a lot of money, is to find the best American technical expertise that we can send to help out in a disaster. Of course, we also send blankets, tents, and other commodities to help.

But it is the American know-how and the technical people we send that are making our disaster responses a little cheaper, but much more effective. We get a lot more mileage out of helping the host country and others figure out how to do their disaster response themselves.

OPTIONS FOR DISASTER FUNDING

Senator **Leahy**. I understand.

But, you have to take money from these other AID programs to do it.

I would think that it would be easier to have the money there, even if you tried to work out some way to have a revolving fund to keep it in, and not have to go and rob Peter to pay Paul on occasion.

Ms. **Taft**. Well, there have been management studies and discussions back and forth on the pros and cons of a revolving fund, or an emergency draw-down like the Refugee Bureau has in the State Department. When it comes right down to it, as many problems as we have by trying to borrow, it still is agreed by all of us that that is the best way.

It gives the agency the chance to reprogram money later on in the year, appropriately. The borrowing does allow us to get money a lot faster than the Refugee Bureau can get its money from the emergency account.

It is not ideal; I do admit that. We have got to find other ways to fund this. Now, one of the other things that we are trying to do, and I note you were mentioning local currencies earlier with General Beckington, is that many of the countries have local currencies that they could use to help their own people.

In Sudan, for instance, they have programmed local currencies to help with some of the internal transport. In Tanzania, they are also using local currencies as part of the response. I think this is a very constructive way to use local currencies, then we do not have to use our hard currency. That is important.

Finally, the other thing is that we are in fact doing some things that I do not believe OFDA should be doing. I do not think OFDA should be involved in long-term emergency situations, year after year.

Senator **Leahy**. I agree. That should be a different type of program.

Ms. **Taft**. Some other account should fund long-term disasters. If that were achieved, maybe OFDA could live within its budget.

CRITERIA FOR DISASTER RESPONSE

Senator **Leahy**. Let me ask you about a particular one. You spoke of our record of generosity and caring for disaster victims, and I agree with you on that.

But I remember, back when there was that devastating earthquake in Nicaragua in the seventies, we helped the people then. Then we had a devastating hurricane on the east coast of Nicaragua last year.

Both disasters involved the same people, yet we did nothing after the hurricane. What has changed? Damage was no less. A 4-year-old whose home has been destroyed in 1988 is no different than a 4-year-old whose home was destroyed in the seventies. Why did we help one time and not the other?

Ms. **Taft**. There are three criteria for a disaster response.

The first is that there has to be an event that has occurred or is imminent that will have a life-threatening component.

Second, the host country must be willing to accept the provision of U.S. assistance, and third, there has to be a determination made by the U.S. Ambassador that we have the capacity to respond and that it is in our interest to do so.

Criteria No. 1 and No. 3 were met in Nicaragua. As a matter of fact, just to briefly go through the chronology, we thought the hurricane was going to arrive about October 21 or 22. On October 20, I sat down with representatives of the administration and developed a contingency plan for our emergency response, because I—as you—was worried about whether we would do it or not do it for political reasons.

We developed a very good response plan. The next day, I left to go worry about locusts in West Africa. Over the weekend, unfortunately, when the hurricane came, Ortega made a public and virulent statement opposing U.S. assistance, and in effect telling us to keep our blood money for disaster relief.

Now, this was coupled with the Ortega statement and the position, as you know, that was taken on October 6 of last year, which prevented the Central American Humanitarian Assistance Program from providing any child survival assistance, and which stated that any PVO, any private agency involved in receiving that assistance, would be penalized and its representatives incarcerated for up to 10 years.

So, all of that was mixed up with the disaster relief. It got very complicated, and quite frankly, we tried. In the end, it was decided at the highest levels of the State Department not to provide disaster relief, because we never got a reclarification from Ortega that he would accept it.

NICARAGUA HURRICANE

Senator LEAHY. Except that when I checked with the Nicaraguan Embassy, they said that they did want it, and Mr. Ortega's foreign minister eventually said they did want it.

Let me ask you just two questions, and you can answer them yes or no, if you want, or elaborate.

Did you, at least initially, request that the administration give emergency aid to Nicaragua because of the hurricane?

Ms. TAFT. Yes, sir.

Senator LEAHY. Did the administration deny that request?

Ms. TAFT. As I say, initially, before the hurricane even hit, I got all the agreements I needed to provide it. But that was before it hit, and before Ortega came out with his statement.

Senator LEAHY. But you did make the request?

Ms. TAFT. Yes, sir.

Senator LEAHY. And the request was denied?

Ms. TAFT. Yes.

Senator LEAHY. And then you subsequently made a second request?

Ms. TAFT. Yes, sir; I thought it needed to be appealed. Yes, sir.

Senator LEAHY. And you felt that they should have allowed the aid to go forward? But the administration, a second time, denied that request, is that correct?

Ms. TAFT. Yes; but it sounds worse than it was.

I mean, it sounds——

Senator **Leahy**. It sounded kind of bad to me at the time, I recall.

Ms. **Taft**. Well, it was a very difficult situation, because the U.S. Government and the executive branch take great pride in making sure that our disaster office is totally apolitical, and we do not make decisions on political grounds.

Just looking at the kinds of countries that we provide assistance, it is very interesting, because we really do——

Senator **Leahy**. I know. We sent it to the "Evil Empire"—the only superpower large enough to really threaten us, but we cannot send it down to little, tiny Nicaragua, which really poses no military threat to us.

I am not suggesting that we should not have sent it to the Soviet Union. I am just thinking that sometimes the rhetoric at the political rallies sounds great. The reality is something else again.

This is not a criticism of you, Ms. Taft, I want you to understand, because you made the request—which I tend to agree with—that the aid go there.

When we send aid—even if we send aid to potential adversaries because of natural disasters—aside from all the morality and the humanitarian aspects, the overall return that we get worldwide is rather substantial.

Ms. **Taft**. That is right.

I think that taught everybody quite a lesson, though, because this was really a very unusual situation. I will convey your sentiments and the sentiments of the committee to the State Department.

I think that we have every intention to try to stay as apolitical as possible. But if Ortega had just kept his mouth shut——

Senator **Leahy**. Well, Mr. Ortega is his own worst enemy. He tends to—he has constantly snatched defeat from the jaws of victory.

He goes out of his way when people try to put together a more even-handed policy toward Nicaragua. I felt—and I say this only half facetiously—that he was on the payroll of those who were most supportive of our Contra aid policy, because he would constantly try to do everything possible to give them support on the floor of the Congress. But that is just one Senator's view. But tucked way up there in that little State of Vermont, what do I know about it?

At least that is the way his actions appear in the paper.

SUDAN FOOD SHIPMENTS

You mentioned Sudan as a particularly difficult problem. We knew last February—February 1988—that things were very bad there, and it took 9 months for the Red Cross to get the two sides to agree to let the food shipments go forward.

During that time, I am told, a small Norwegian relief agency was flying food into southern Sudan from Kenya. Were we doing anything? A quarter of a million people died. I mean, if this little relief agency could fly food in, what was the most powerful nation in the world doing?

Ms. **Taft**. Again, I think you have to put this against the backdrop of the fact that there had been several private voluntary agencies working in southern Sudan that were expelled in 1987.

With that expulsion went our eyes and ears. We had really no information about what was going on with southern Sudan. It was not until about February or March of last year that we started to see a large number of refugees flowing into Ethiopia who had trekked—some of them, for 3 months—across the upper Nile, into Ethiopia, seeking asylum. They were in the worst shape of anyone that has ever been in a famine situation.

As a matter of fact, their condition was much like the pictures one sees of the Nazi concentration camps. That was the first window that the West had on what was going on in southern Sudan.

At the same time, we started seeing the women and the children going up to the northern part of southern Kordofan, which was really a government-held area, fleeing the war and the conflict.

We had programs to help them, as soon as we could get through, because as you know the rainy season was on, and it was very difficult to get further into the south.

In September of last year, we provided about $3 million and sent a team of people to assess the situation. They found nothing was really working. I just said, go and be creative, and do whatever you can. Get planes, get donkeys, get whatever moves, so that we can get assistance in.

And it was very successful. This was before the ICRC program started. We started a major distribution program, particularly focusing on the city of Abyei, which had been stranded for many months because of the floods, and 8,000 people had died, as had 8,000 in Aweil. Our program began focusing on those areas.

It has been very difficult to get agreements from the Government of Sudan and the rebels. The first breakthrough was the ICRC effort that started last December.

Now that the United Nations is involved, and there have been a series of international conferences and a lot of public visibility, I think the two sides are being much more helpful.

But the rains are coming and access again will be cut off. I do not want you to have the impression that the Norwegian People's Association was the only agency providing food. We have already delivered many thousands of tons.

SUDAN RETROSPECTIVE

Senator **Leahy**. I realize that with a small staff, and everything else, sometimes it is easier said than done—but has there been any retrospective review of U.S. relief in the Sudan. Has anyone been reviewing it to figure out those things that went especially right and those things that should have, in retrospect, been done differently?

Ms. **Taft**. When I retire, I am going to write one. [Laughter.]

Senator **Leahy**. I wish you would share it with me.

Ms. **Taft**. It is hard——

Senator **Leahy**. I do not envy you in the position you are in there, and I do not know what I could have done, had I been in your place.

But I am just haunted by the faces of these people you describe as looking like people out of the death camps during World War II. And I absolutely agree with you.

And I think, my God, we have got all this food—oftentimes food that we just spend millions of dollars to store—that could feed them. I mean, all of us, if we ever go hungry, we do it only by choice, not by necessity, and I think——

Ms. **Taft**. It is a sad commentary.

Senator **Leahy**. Where is the magic lever that we could pull to get food and other supplies in there?

Ms. **Taft**. I will be glad to talk to you about this because we have struggled with that situation, and have engaged the best, most creative people around to try to figure out how to break the logjam.

But quite frankly, if in fact the major host country, the rebels, the tribes, the tradesmen, and everybody else will not allow access, you cannot risk the lives of the relief workers in that situation.

Senator **Leahy**. Oh, I agree.

Ms. **Taft**. And I think that was a problem.

Senator **Leahy**. You wonder how people can stand there and say that they are concerned about their country, when they allow the people of their country to just die needlessly.

Ms. **Taft**. That is true. And part of the disaster relief business is helping people see the wisdom of helping their own, and we are making some progress.

But Sudan is still going through quite a struggle. We have provided, as a Government, about $77 million just in our relief aid, during the past year.

Senator **Leahy**. Thank you.

Well, if you do that, if you do have time—I think that you are going to be very, very busy in the next few months—but if you do have time to go back and look at that situation, what would you do differently. If you are willing, I would be delighted if you would share it with me.

Ms. **Taft**. I would be pleased to.

Thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. Thank you.

Good luck to you, and please give my best to Will, too. We will be submitting some further questions for the record.

Ms. **Taft**. Thank you, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

BORROWING AUTHORITY

SENATOR LEAHY: Section 492(b) of the Foreign Assistance Act gives you authority to use $50 million in other A.I.D. funds for disaster relief, if the need arises. Am I right that in order to use that borrowing authority you have to request the funds early in the year?

MRS. TAFT: OFDA requests the funds only when the regular appropriation is fully programmed and is therefore no longer available to cover new disasters. There were not many requirements in FY 1987, and A.I.D. did not use 492(b) authority until September 19, 1987, i.e., less than two weeks before the end of the fiscal year. By contrast, in FY 1988 there were many requirements, including the drought in Ethiopia and locusts in Africa and the Near East, so that we began using 492(b) authority on April 8, 1988.

SENATOR LEAHY: How do you know how much to ask for?

MRS. TAFT: We ask for funds based on information about the requirements of the current disaster as well as what other sources of funding are available (e.g., from host government and other donors). Such information can come from host government sources, U.S. Government personnel, other donor data, and PVO proposals. In addition, our experience in response to similar disasters helps us determine appropriate responses and related costs. Sometimes OFDA will seek additional information by sending people to the field to conduct assessments from its own staff, from other federal or local government agencies, from universities, or the private sector, depending on where the necessary expertise is available. With some disasters of an evolving nature, such as famine in Africa, we may draw on 492(b) authority more than once in order to meet continuing relief requirements.

SENATOR LEAHY: How long does it take to get the money from those other accounts?

MRS. TAFT: Obtaining approval from A.I.D.'s Administrator to use 492(b) authority has sometimes been done in less than a day when speed is critical in order to give OFDA flexibility in planning appropriate disaster relief. Managing the actual transfer of funds usually takes longer, but is not a critical factor because OFDA has programmed an operating reserve sufficient to meet at least the initial requirements of all disasters.

SENATOR LEAHY: If you use funds originally intended for other A.I.D. programs doesn't that cause disruptions there?

MRS. TAFT: The funds we use under 492(b) authority are generally deobligations or other funds which have become available for reprogramming from a given activity during the course of the year due to revised development plans. In addition, A.I.D. sometimes sets aside funds at the beginning of the year on a contingency basis for just such an occurrence. If any of the above funds are not needed for disaster relief, they are made available for development activities based on A.I.D. priorities at the time.

SUDAN

SENATOR LEAHY: You have mentioned Sudan as a particularly difficult problem. We knew last February from the reports of refugees that things were very bad there. It then took nine months for the Red Cross to get the two sides to agree to let the food shipments go forward. What were we doing during all that time, while 250,000 people died?

Several members of Congress criticized the Administration for not exerting more pressure on the Sudanese government in Khartoum. Do you feel that we did all we possibly could have? With all our airplanes, helicopters and trucks there was nothing the richest, most powerful nation on Earth could do to save those quarter million people from starving to death?

If you had to do it again, what would you do differently?

I'm told a small Norwegian relief agency was flying food into southern Sudan and Kenya during those months. Why couldn't we have done that?

MRS. TAFT: The heaviest rains in Sudan since 1946 resulted in unprecedented flooding throughout the country. Ground and air transport throughout Sudan were hopelessly disrupted for months thereafter. We should remember as well that until the U.S. achieved several dramatic breakthroughs, neither the Government of Sudan (GOS) nor the Sudanese People's Liberation Army (SPLA) permitted relief to reach war victims. The United States led the way in reversing those misguided policies. Our leadership in putting a trainload of food into El Meiram in June, 1988, and our success with the Abyei airlift in October are examples of successful United States interventions.

By November, 1988, the United States Government had contributed $16.7 million toward the Sudan relief effort. Grants were given to such organizations as CARE for food logistics monitoring in Kordofan, to Church World Services to move food into the south, and to UNICEF to provide drugs, medicines and water to in-camp displaced persons. The Department of Defense transported 750 rolls of plastic sheeting which now shelters thousands of homeless people.

The entire multi-donor effort in the south had been seriously constrained by intense military activity during the period cited in your question. It took nine months of tedious and frustrating negotiations to get the International Committee of the Red Cross (ICRC) relief operation under way because it was necessary to achieve an agreement between the two warring parties before the International Committee of the Red Cross could begin operations. Both refused to allow airlifts or even surveys to begin before final agreement was reached. Our intention was for the International Committee of the Red Cross to establish a precedent for a substantive relief effort in the south. We believe that has been the case--Operation Lifeline Sudan could not have begun without the trust built up among donors and all other parties through the International Committee of the Red Cross program.

Norwegian People's Aid (NPA) did truck modest amounts of food into southeastern Sudan during this period. The area it was operating in, Kapoeta, was one of a very few where the Sudanese People's Liberation Army (SPLA) permitted limited relief services. The United States was prepared to provide assistance but was told by Norwegian People's Aid that United States help was not needed at the time.

A total of 14 major non governmental organization activities are now supported by the United States in the Transition Zone and in the south. The United States was the first to support the non governmental organizations with substantial funds and resources for their displaced persons relief activities. We remain the major backer of non governmental organizations engaged in relief activities throughout Sudan.

Ultimate responsibility for the survival and rehabilitation of Sudan's citizens rests with the two warring parties, not with the United States or any other foreign entity. In our dealings with the Government of Sudan and Sudanese People's Liberation Army we must continue to make this point.

LONG-TERM DISASTERS

SENATOR LEAHY: One thing you've mentioned is the problem of chronic, long-term disasters, such as the civil war in Mozambique. I tend to agree with you that at least after the first 60 or 90 days, these aren't the kind of emergencies for OFDA to be dealing with. What success are you having in getting the other A.I.D. bureaus to handle this kind of ongoing crisis?

MRS. TAFT: Slow onset long-term disasters such as those arising from civil strife, desert locust plagues and continuing drought are being handled increasingly by A.I.D.'s geographic bureaus. For example, the Bureau for Asia and Near East accepted primary responsibility for the desert locust plague affecting the countries for which it manages U.S. assistance (although OFDA played a coordinating, survey and monitoring role given the multi-regional and multi-donor character of the plague). The Bureau for Africa also made a major financial and managerial contribution towards controlling the desert locust plague throughout the Sahel-Sudano region of Africa. In addition, the FY 1990 budget for the Bureau for Africa requests $15 million to ameliorate the worst effects of natural disasters in Africa.

Recent disasters in countries assisted through A.I.D.'s Bureau for Latin America and the Caribbean (LAC) have not been of a chronic nature. However, after OFDA provided the initial relief, the Congress has earmarked relief, rehabilitation and reconstruction assistance for particularly destructive disasters in Latin America such as the El Salvador earthquake of 1986 and the September 1988 hurricane which hit Jamaica. This follow-on assistance has been implemented through LAC rather than through OFDA.

SENATOR LEAHY: Is there a need for legislation?

MRS. TAFT: I believe that we are solving the problem and that legislation directed at the situation is unnecessary.

AFRICAN LOCUSTS

SENATOR LEAHY: It is my understanding that a new plague may now be brewing in Saudi Arabia and that our good friends in Riyadh have been reluctant to allow international survey teams into the desert to assess the potential for a disaster. What steps now are being taken to guard against a new Saudi locust plague spreading into Africa?

MRS. TAFT: Desert locusts in Saudi Arabia are a major concern of the international community working on controlling desert locusts. Although U.S. survey teams have not been allowed into Saudi Arabia to assess the situation in the country, we now have a good understanding of the situation. Some international experts have been allowed into the country. For example, in March of 1989, FAO consultant and international desert locust expert, George Popov, visited the country, traveled widely, and participated in a comprehensive review. He reported directly to us on the successful Saudi Arabia Government (SAG) campaign working in agriculture areas. As a result of relatively dry weather conditions, the locusts were largely situated in irrigated crop areas where the SAG was able to launch a very effective control program. At this time there simply are not enough locusts left to create a threat in Saudi Arabia. Recent weather information does reveal, however, that conditions may be suitable for locust breeding along the Red Sea coast from Yemen to el Taif in Saudi Arabia, and possibly in the "empty quarter." Any residual locusts in Saudi Arabia could migrate to these areas before moving on to Sudan and the Horn of Africa. OFDA has notified our colleagues at FAO as well as the U.S.A.I.D. Missions in the region of these conditions. FAO and the British Government through the Desert Locust Control Organization for East Africa are taking the lead in survey and control efforts, as needed, in that area.

SENATOR LEAHY: Is this really the time to disband the Locust Task Force?

MRS. TAFT: In the past three months, there has been very little locust activity except for a few residual swarms in western Sahel. Consequently, U.S.A.I.D. and FAO locust experts agree that the wide spread plague is over, and the remaining work of the Desert Locust Task Force should be transferred to the geographic Bureaus where two full-time entomologists are managing locust and related pesticide and environmental activities. In addition, the Africa Bureau provided a $1.5 million grant to FAO specifically to conduct surveys and monitor the distribution and displacement of residual populations of desert locust in the Sahel and the Sudan. Furthermore, USDA, which is the Agency officially responsible for representing the U.S. Government in international desert locust foras, holds a seat on the fifty-member FAO Desert Locust Control Committee (DLCC). The Committee, in cooperation with Regional Locust Control Commissions in Africa, is mandated to provide leadership and technical guidance in the continuous monitoring, training, and preparedness for locust upsurges and plagues. USDA and A.I.D. representatives will be attending the 30th annual meeting of the DLCC from June 12 - 16, 1989. We therefore feel confident that the U.S. Government is taking sufficient steps to ensure continued effective monitoring and control of the desert locust situation.

SENATOR LEAHY: Have you given any thought to making the Locust Task Force a permanent body within OFDA or A.I.D. generally?

MRS. TAFT: Once the locusts are in a state of recession, there isn't sufficient work for a group of A.I.D. staff to work exclusively on the desert locust control programs. Recession periods can last 10 years or longer. We believe, however, that it is vital to continue to monitor the situation, even during a recession period, and to organize Desert Locust Task Force (DLTF) documents in such a way that future A.I.D. staff can easily gear up to handle the next plague whenever it comes. For example, there will continue to be an abundant amount of institutional development work through the Africa Emergency Locust and Grasshopper Activity (AELGA) project. This project will provide essential training and support to help build and sustain an African capability to respond effectively and safely to locust infestations. The multi-million dollar Morocco locust program will also provide on-going support to the Moroccans to ensure their readiness for another upsurge. Missions participating in all these programs will be well-informed on the locust situation and will be able to alert A.I.D. Washington of any unexpected upsurge. Further, the two full-time entomologists in the geographic Bureaus, whom I mentioned earlier, are in regular contact with FAO Rome, which serves both as the early warning center and the world coordinator of desert locust information.

Finally, the work of OFDA and the DLTF has generated a large body of literature on the organization and management of locust plagues which will be useful for the future. Not the least of these is the Locust Management Guidebook, a comprehensive volume which was written by some of the leading U.S. experts in the fields of entomology, aerial and ground control operations, campaign organization and management. The Guidebook was published in 1989 and has been distributed to all the A.I.D. offices which have dealt with locusts and to every potentially affected U.S.A.I.D. Mission or U.S. Embassy in the Africa and Asia/Near East regions. We would be pleased to make a copy available to your office. It is also our intention that the work of the DLTF, which includes exhaustive lists of experts, aircraft companies, trip reports, etc. be kept in an active file in the Africa Bureau, available as soon as needed.

In sum, the DLTF proved to be a most effective way for A.I.D. to coordinate across Bureaus and between Agencies in order to respond to an enormously large and technically complex problem. It was successful precisely because it was an emergency task force and operated as such. We believe that the regular, non-emergency work of A.I.D. can be effectively continued by the geographic bureaus.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE REQUEST

SENATOR D'AMATO: Having read your statement, Mrs. Taft, it is hard to believe that $25 million is adequate to the task. Are you comfortable with this request?

MRS. TAFT: We believe that our request for $25 million for A.I.D.'s Office of U.S. Foreign Disaster Assistance (OFDA) is reasonable. While there are years when disaster requirements exceed the funds initially available to OFDA through International Disaster Assistance (IDA) appropriations, carryover, etc., we believe it makes sense to meet these additional requirements through the section 492(b) authority, or, if necessary, through supplemental appropriations. As recently as FY 1987, only $2.0 million was provided through section 492(b) authority.

It is our impression that much of the rationale for changing the source and/or manner in which OFDA is funded beyond its initial appropriation is due to misperception that there have been many new or on-going projects in A.I.D.'s portfolio which have been inconvenienced or stopped because the funds were borrowed for OFDA. The facts do not support such a perception.

The amounts that are required by OFDA vary widely from year to year. Rather than try to predict the amounts needed to meet disaster relief requirements, we believe it is reasonable to request a level with the understanding that mechanisms are available to meet additional needs. The $25 million requested is a sound base around which the United States can plan and respond to many international disaster assistance request. We should review the situation carefully before deciding on changes in funding mechanisms for OFDA.

OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD

STATEMENT OF DAVID SANTOS, DIRECTOR

SUMMARY REMARKS OF MR. SANTOS

Senator **LEAHY**. Mr. Santos, you get a chance to bat cleanup here.

You could tell us about the American Schools and Hospitals Abroad Program.

Mr. **SANTOS**. Thank you, Senator Leahy.

My formal statement has been submitted for the record.

Senator **LEAHY**. Yes; that will be part of the record.

Mr. **SANTOS**. I would like to make a few introductory comments.

Following on my colleagues, General Beckington and the disaster relief people, I would like to say that I believe the American Schools and Hospitals Abroad Program is a very effective use of a relatively modest amount of funds provided by grants to U.S. organizations for institutions overseas.

Unlike some of the disaster activities that get great publicity, many of the institutions that we assist do not, nor do the 1,200 Americans who work full-time with these institutions overseas, plus the thousands of others among the foreign national community who by and large are United States-educated and work with them.

But they are working to provide an American-style education to over 200,000 students who are enrolled at the schools that we assist, and to provide medical services to some 4 million people annually at the hospital centers for medical education and research that we assist.

In recent years, emphasis has been given to broadening the program geographically, assisting a greater number of institutions in Africa, Asia, and Latin America. At the same time we have provided assistance to a number of institutions in the Near East, especially those with long histories of developmental, cultural and representational impact. In fact, in the past 5 years, of the 91 institutions that we have assisted, 42, or some 46 percent, have been first-time recipients.

Also during the year—and we summarized this in both our congressional presentation and in our statement—the institutions that we have been assisting have been dedicating new facilities such as laboratories, libraries, and classrooms, at the rate of more than one a month, and we think this is an impressive record.

For fiscal year 1990, we are requesting $30 million for the program, and I would characterize that as an adequate request.

[The statement follows:]

STATEMENT OF DAVID SANTOS

Thank you for inviting us to appear before this Subcommittee on behalf of the Agency for International Development's Office of American Schools and Hospitals Abroad.

The Office of American Schools and Hospitals Abroad (ASHA) assists private, non-profit institutions which serve host-country citizens. These institutions are known for their American character because of their founding or sponsorship by U.S. citizens and the active participation of Americans in their delivery of educational and medical services.

As private institutions, they meet all or most of their operating expenses from tuition, fees, private contributions from U.S. and in-country sources, earnings from endowments, and the sale of services. ASHA grants help selected institutions to build and equip laboratory, library, classroom, diagnostic, medical treatment and support facilities, and, in a few cases, to meet the costs of educational and medical programs.

ASHA-assisted institutions educate future leaders and those already in the work force in a variety of disciplines essential to broad-based and sustained economic growth. These include agriculture, economics, business and public administration, medicine, nursing, public health, education, engineering and the arts and sciences. Their ability to use and adapt American methods to the needs of other cultures contributes to effective institution-building and to the training of a worldwide cadre which can communicate, share values and work with Americans in business, government, the sciences and other mutually beneficial endeavors.

ACCOMPLISHMENTS IN 1988

In 1988, 80 American-sponsored schools and hospitals were carrying out ASHA-financed activities in 43 countries. These private institutions enrolled more than 200,000 students from more than 100 countries and provided medical services to four million persons.

More than 1,200 U.S. citizens served with thousands of U.S.-educated foreign nationals on the faculties, medical staffs and administrations of these institutions. Hundreds of other Americans served on boards of trustees setting policy, raising funds and providing administrative and logistical support.

During 1988, ASHA-assisted projects were completed and dedicated at the rate of more than one a month.

Three universities in the Philippines, one on Luzon and two in Mindanao, dedicated new library and learning resource centers to serve 17,000 students as well as broader community needs. A fourth institution in the Philippines, a college on the island of Negros, inaugurated a science and engineering building, which made it possible to offer graduate programs and to attain accreditation in these fields. In northern Thailand, new library facilities were dedicated at a college where enrollment has increased from 200 to 2,000 in 15 years.

A secondary school in India completed a new building housing classrooms, a library, a language laboratory, and facilities for computer science and business education. The new facility permits an increase in enrollment and the addition of new courses to the curriculum.

Students from the dispersed islands of the Federated States of Micronesia participated in the dedication of a dormitory and renovated academic facilities at a secondary school in Truk. The facilities will improve the learning atmosphere and the quality of education for students who will have to work together in the future to strengthen that new country's sense of nationhood.

In south central Zaire, a hospital that serves 110,000 patients annually dedicated electric power facilities. In addition to providing reliable power for the hospital, this improvement is now permitting the hospital to expand its nursing school and to construct a continuing medical education center. In Zambia, new outpatient and pharmacy facilities are expanding a hospital's ability to detect and treat disease. A hospital in

Botswana inaugurated new food service and other support facilities enabling it to accommodate increased referrals and strengthen its rural outreach programs.

At Istanbul, Turkey, a diagnostic center, in-and-out surgery facility, specialized clinics and a medical education center have been newly established.

A hospital in Mexico has upgraded its capabilities with U.S. diagnostic and therapeutic equipment in its newly dedicated clinical services building. In Guatemala, new academic and administrative facilities are enabling a university which emphasizes education in the natural and social sciences to better accommodate and serve an enrollment which has grown by 35% in the 1980s.

An agricultural college in Honduras, with students from 15 Central and South American countries, dedicated dairy science and horticulture laboratories. The new facilities help implement the school's plan to improve programs, expand enrollment and provide the agribusiness skills necessary to meet the food needs of a Central American population which is doubling in one generation.

FIVE YEAR OVERVIEW

In recent years the ASHA program has given greater emphasis to a geographically balanced program assisting greater numbers of institutions in Africa, Asia and Latin America. At the same time, a number of institutions in the Near East -- including those with long histories of developmental, cultural and representational impact -- have continued to be assisted on an annual or periodic basis.

In response to Congressional urging for a broader geographic distributon of ASHA activities the percentage of ASHA resources assisting institutions outside the Near East rose from an average of 45 percent in the 1970s to 64 percent in FY 1988. In the past five years, 42 of 91 institutions assisted (46%) have been first-time recipients. These institutions are identified with an asterisk in the attached table which shows grants by country and institution for Fiscal Years 1984-1988.

During this period, ASHA has financed various parts of the development programs of three institutions of higher education in Central America. Each institution specializes in one of the areas critical to that region's development, i.e. the agricultural sciences, economics and business administration and the natural and social sciences. Library, laboratory and classroom buildings are presently under construction.

ASHA has also responded to the need for trained manpower in Haiti, the poorest country in the Americas, by financing the construction of permanent academic facilities at an institution for higher education founded by U.S. citizens in 1984 and operating in temporary quarters.

ASHA grants to organizations working to strengthen American-Chinese relationships are financing programs and facilities in China for American studies and the demonstration of U.S. medical techniques and practices.

In Poland, construction of the Zablocki Ambulatory Care Center at the American Children's Hospital is progressing approximately on schedule with completion estimated in 1991. However, inflation in that country is raising the cost of the project. The non-convertible Polish zlotys available for construction will likely run out at the end of this year. The executive branch is presently considering the advantages and disadvantages of using convertible zlotys or dollars to complete the project.

FISCAL YEAR 1990 REQUEST

A.I.D. is requesting $30 million for the American Schools and Hospitals Abroad program for FY 1990 to assist a select portion of those applicants seeking to improve private and non-profit educational and medical institutions overseas founded or sponsored by U.S. citizens.

Attachment: Grants by Country and Institution, FYs 1984-1988

AMERICAN SCHOOLS AND HOSPITALS ABROAD

GRANTS BY COUNTRY AND INSTITUTION, FYs 1984-1988
(In Thousands of Dollars)

During the past 5 years, ASHA assistance has benefited 91 institutions.
Asterisks indicate 42 first-time recipients during this five-year period.

Country and Institution	FY1984	FY1985	FY1986	FY1987	FY1988	TOTAL
Botswana	550	425	800	-	125	1,900
Kanye Hospital, Kanye	-	-	800	-	-	800
Maru a Pula School, Gaborone	550	425	-	-	125	1,100
Brazil	150	-	192	250	550	1,142
Esperanca, Santarem	150	-	192	250	550	1,142
Cameroon	-	325	-	325	-	650
* Central Hospital D'Enongal, Enongal	-	325	-	325	-	650
China	-	-	-	3,000	4,700	7,700
* American Medical Center, Shanghai	-	-	-	1,000	2,000	3,000
* Ctr. for Am. Studies & Life Sciences, Shanghai	-	-	-	2,000	2,000	4,000
* Chinese-American Studies Center, Nanjing	-	-	-	-	700	700
Ecuador	-	-	-	500	800	1,300
* Academy Cotopaxi, Quito	-	-	-	500	800	1,300
Egypt	1,000	2,250	1,750	650	1,300	6,950
American University in Cairo	1,000	1,850	1,750	650	1,300	6,550
* College of the Holy Family, Cairo	-	400	-	-	-	400
Federated States of Micronesia	-	-	600	-	400	1,000
* Xavier High School, Truk Island	-	-	600	-	400	1,000
Greece	1,380	1,075	700	800	550	4,505
American College of Greece, Athens	380	-	500	-	-	880
American Farm School, Thessaloniki	350	475	-	-	250	1,075
Anatolia College, Thessaloniki	375	600	200	-	300	1,475
Athens College, Athens	275	-	-	350	-	625
* Blegen and Gennadius Libraries, Athens	-	-	-	450	-	450
Guatemala	1,825	850	2,500	2,200	1,150	8,525
* Francisco Marroquin Univ., Guatemala City	1,000	-	1,900	1,400	1,150	5,450
Hospital de La Familia, Nuevo Progresso	125	-	-	200	-	325
Univ. of the Valley, Guatemala City	700	850	600	600	-	2,750
Haiti	-	675	1,385	1,300	1,600	4,960
* American University of Les Cayes, Les Cayes	-	-	700	900	1,600	3,200
Bohoc Technical Institute, Bohoc	-	375	330	200	-	905
Hospital St. Croix, Leogane	-	300	355	200	-	855
Honduras	1,700	2,500	1,643	1,000	2,605	9,448
Sampedrana Int'l School, San Pedro Sula	-	800	200	-	1,250	2,250
Panamerican Agricultural School, Zamorano	1,700	1,700	1,443	1,000	1,355	7,198
India	900	1,410	950	700	500	4,460
* Kodaikanal School, Tamil Nadu	-	300	-	-	-	300
Ludhiana Christian Medical College and Hosp.	500	500	500	-	500	2,000
Vellore Christian Medical College and Hosp.	400	500	450	700	-	2,050
* Woodstock Int'l School, Musoorie	-	110	-	-	-	110
Israel	4,100	4,650	5,450	5,150	4,920	24,270
* American College of Belz, Jerusalem	-	500		-	-	500
Beth Rivka Comprehensive School, Kfar Chabad	450	-	-	-	-	450
Beth Yaacov Avat, Ashdod	-	-	-	100	-	100
Boys Town, Jerusalem	-	300	-	700	-	1,000
* Children's Town, Jerusalem	-	-	500	-	-	500
Emunah Women of American Community Coll., Jerusalem	-	200	-		-	200
Feinberg Graduate School, Rehovot	1,200	500	750	1,000	1,000	4,450
Gan Yavne Youth Village, Gan Yavne	-	150	-	-	-	150
Hadassah Medical Center, Jerusalem	1,500	1,500	1,500	1,650	1,500	7,650
* H.S. Truman Research Institute for Advancement of Peace, Jerusalem	-	-	150	-	-	150
Jerusalem College of Technology	250	-	-	-	-	250
* Kfar Silver School, Ashkelon	200	-	-	-	-	200
Laniado Hospital, Kiryat Sanz	-	500	-	-	300	800
* Machaniam High School, Kiryat Gat	-	-	200	200	200	600
* Mother and Baby Hospital, Jerusalem	-	-	1,250	-	1,250	2,500
* Music Foundation, Jerusalem	-	-	200	-	-	200
Ohr Somayach School, Jerusalem	-	1,000	-	1,000	670	2,670
* Sha'Alvim Teacher's College, Sha'Alvim	-	-	400	-	-	400
Shaare Zedek Hospital, Jerusalem	500	-	500	500	-	1,500
Italy	325	350	325	325	300	1,625
Center for Advanced Int'l Studies, Bologna	325	350	325	325	300	1,625

Country and Institution	FY1984	FY1985	FY1986	FY1987	FY1988	TOTAL
Jamaica	625	-	225	-	-	850
* St George's College, Kingston	625	-	225	-	-	850
Jordan	400	250	-	-	-	650
American Center for Oriental Research, Amman	400	250	-	-	-	650
Kenya	-	-	-	500	250	750
* Tenwek Hospital, Bomet	-	-	-	500	-	500
* Outward Bound School, Loitokitok	-	-	-	-	250	250
Korea	800	1,300	400	-	-	2,500
* Chung Ang University, Seoul	-	-	400	-	-	400
* Kwangju Christian Hospital, Kwangju	250	-	-	-	-	250
Presbyterian Medical Center, Jeonju	-	400	-	-	-	400
Sogang University, Seoul	550	-	-	-	-	550
Soong Sil University, Seoul	-	900	-	-	-	900
Lebanon	5,000	5,350	6,200	6,000	6,850	29,400
American University of Beirut	5,000	5,000	6,000	6,000	6,500	28,500
Beirut University College, Beirut	-	350	200	-	350	900
Liberia	650	600	700	720	300	2,970
Cuttington University College, Suacoco	650	600	700	720	300	2,970
Malawi	-	700	550	-	-	1,250
Malamulo Hospital, Makwasa	-	700	550	-	-	1,250
Mexico	1,500	-	1,000	700	1,800	5,000
* American British Cowdray Hosp., Mexico City	1,000	-	1,000	-	1,000	3,000
University of the Americas, Mexico City	500	-	-	700	800	2,000
Pakistan	-	-	500	-	700	1,200
* Nancy Fulwood Hospital, Sahiwal	-	-	500	-	700	1,200
Philippines	1,200	1,100	650	2,050	1,175	6,175
* Angeles University, Angeles City	-	-	650	-	-	650
Ateneo de Davao University, Davao City	-	250	-	-	-	250
* Ateneo de Manila University, Quezon City	1,200	-	-	-	-	1,200
* Ateneo de Zamboanga, Zamboanga City	-	850	-	-	150	1,000
De La Salle University, Manila	-	-	-	-	800	800
* La Salle College, Bacolod	-	-	-	250	-	250
* Notre Dame of Marbel College, Korondal	-	-	-	950	-	950
* Notre Dame University, Cotobato City	-	-	-	850	-	850
Xavier University, Cagayan de Oro City	-	-	-	-	225	225
Poland	750	250	325	400	400	2,125
American Children's Hospital	750	250	325	400	400	2,125
Sri Lanka	-	-	-	130	-	130
* Eastern Technical Insitute, Batticaloa	-	-	-	130	-	130
Sudan	425	-	-	-	-	425
* Loyola Secondary School, Wau	425	-	-	-	-	425
Thailand	1,225	700	850	1,050	1,000	4,825
Bangkok Adventist Hospital, Bangkok	725	700	-	300	-	1,725
Payap University, Chiang Mai	500	-	-	-	-	500
* Yonok College, Lampang	-	-	850	750	1,000	2,600
Turkey	680	650	1,025	1,350	1,475	5,180
Admiral Bristol Hospital, Istanbul	400	650	725	450	575	2,800
* American Collegiate Institute, Izmir	-	-	300	-	-	300
* American Girls Education Center, Uskadar	-	-	-	400	400	800
Robert College, Istanbul	280	-	-	500	-	780
* Tarsus American School, Tarsus	-	-	-	-	500	500
West Bank	1,000	-	-	-	-	1,000
* Bethlehem University, Bethlehem	1,000	-	-	-	-	1,000
Zaire	715	550	850	800	900	3,815
Good Shepherd Hospital, Kananga	715	550	850	800	900	3,815
Zambia	600	690	-	200	-	1,490
* Macha Hospital, Choma	-	-	-	200	-	200
Mwami Adventist Hospital, Chipata	600	690		-	-	1,290
Zimbabwe	-	-	-	1,000	1,550	2,550
* Simon Mazorodze Inst. for Bio-Medical Education and Research, Harare	-	-	-	1,000	1,550	2,550
Worldwide	2,500	3,350	3,925	3,850	4,100	17,725
Project HOPE Schools of Health Sciences	1,500	1,500	2,000	1,550	1,700	8,250
Project ORBIS	1,000	1,850	1,925	2,300	2,400	9,475
Program Evaluation	-	-	-	50	-	50
TOTALS	30,000	30,000	33,495	35,000	40,000	168,495

REQUEST LEVEL

Senator LEAHY. Let us take a look at your budget request. You have requested $30 million for fiscal year 1990. That is $5 million less than Congress appropriated last year, $10 million less than fiscal year 1988.

So your program needs are going down, is that it? I mean, you do not have any problem, then, with $30 million?

Mr. SANTOS. I think the $30 million is an adequate amount.

Senator LEAHY. Well, it is the amount the administration asked for.

Mr. SANTOS. It certainly will keep the pressure on private organizations to increase their fundraising and their efforts to increase revenue from tuition and fees.

Senator LEAHY. It is 25 percent less than fiscal year 1988?

Mr. SANTOS. Yes; that is right, Senator.

Senator LEAHY. Were you able to use all your money in fiscal year 1988?

Mr. SANTOS. There was no question of utilizing the money in 1988.

We had $105 million worth of proposals, and this year we have some $117 million worth of proposals.

Senator LEAHY. I must tell you, I am looking at all the budget requests, and a number of them—those where the Congress has traditionally added money—the administration has made significant cuts. I guess they assume that we will add the money on, and then we will be perceived as the big spenders. And in those programs where there is less eagerness to add, they put it in at the full amount.

I am inclined to think it is about time we let people have what they ask for, and if they want to make major cuts here—Eximbank, a whole lot of other places—they ought to just do it, and help out the administration because of bipartisanship.

If they want to cut major foreign aid programs, or a whole lot of other programs, well, just go ahead and cut it. It would certainly make my life easier than trying to find the money.

Let me just ask—now that we are going to give you $30 million instead of the $40 million that it was a couple of years ago—what is going to happen? How many of the current projects will still be able to receive new grants, and what gets cut out?

Mr. SANTOS. Basically, a lower budget will mean smaller grants, not necessarily fewer grants.

Senator LEAHY. Well, how many qualified applications for new grants will be turned down?

Mr. SANTOS. Well, in the last few years, we have been assisting between 53 percent and 66 percent of the applicants who have applied to us.

Senator LEAHY. Will this allow you to shift more actual program funds into Africa, Latin America, and Asia—something that I understand you want to do, and I happen to concur with?

Mr. SANTOS. We hope to continue that trend. The only way that it can be accomplished with a smaller budget is for some of the annual grantees, and those that have been among the largest recipients over the years, to receive less funding.

Senator **Leahy**. That is assuming that we are able to give exactly the amount the administration asks—I am not suggesting we are going to cut it below that. Maybe we will, but I am not eager to. I am not eager to expand it, either.

AMERICAN UNIVERSITY OF BEIRUT

Since 1984, the American University in Beirut received $29.4 million of ASHA's grants. About $6 million a year—does that make sense today, in that sad city where total anarchy exists?

Mr. **Santos**. It is a pretty sad situation, Senator, and today, there is another excellent example of it, with a major car bombing and the American University of Beirut Hospital taking in 50 patients.

The academic side of the institution, apart from the medical school, has been closed since Easter as a result of the activities of the last month.

You know, over the years of this continuing civil war, we have continued—both ASHA and the Agency as a whole—have continued to make the wager that things would return to a more normal situation, that the conflicts would be resolved, and that the American University of Beirut could resume its former role as a premier American university overseas.

We think that that wager should continue to be made as long as the institution is able to keep itself open, and as long as it continues to attract students—which it has been doing.

Whether it will be able to reopen, given the activities of the last month, now, is a good question. But prior to that, there were slightly over 5,000 students enrolled at that institution.

ACLU LAWSUIT

Senator **Leahy**. How is the lawsuit against the ASHA program going—the one the ACLU has brought?

What is AID's defense against the allegation that you are violating the Constitution's ban on Federal funds supporting religion?

Mr. **Santos**. I am really not at liberty to comment at any great length on the suit, except to say that we do not believe that we are in violation.

Senator **Leahy**. Yes; but I mean, where is the suit now?

Mr. **Santos**. It is still in the discovery stage, Senator.

I think that stage is drawing to a close, or should, very shortly.

Senator **Leahy**. When is it supposed to go to trial, do you know that?

Mr. **Santos**. No; it really is up to the plaintiffs, and they have not indicated at this point exactly when that would happen.

Our own general counsel staff and the U.S. attorney involved in the case have recently taken some depositions from plaintiff's witnesses, and that should be the end of the discovery period.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. Senator Kasten and other members had to be at other hearings, so I will leave the record open in case they have any further questions.

Thank you very much for being here.

Mr. SANTOS. Thank you, Senator.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

BUDGET REQUEST

SENATOR LEAHY: Mr. Santos, the Administration has requested $30 million for FY 1990. Why are you asking for $5 million less than Congress appropriated last year, and $10 million less than FY 1988?

MR. SANTOS: The request for ASHA was increased from $20 to $30 million two years ago. Given the tight budgetary environment and competing program priorities the Administration concluded that its request for ASHA should be "straight-lined" for FY 1990, despite the higher than requested appropriation this year.

SENATOR LEAHY: Are your program needs falling?

MR. SANTOS: During the 1980s, total annual requests from applicants have been between a low of $62 million in FY 1983 and $117 million for FY 1989. The ratio of requests to budget has been between 2.5 and 3.5 to one. This is not an inappropriate ratio for a competitive grant program, and helps assure the average quality of the program. Some applicants are over-ambitious, some have poor proposals and others look increasingly to the U.S. Government for assistance rather than other sources. For example, applications requesting in excess of $2 million increased from 17 percent of all applicants in FY 1988 to 30 percent of the applicants in FY 1989.

SENATOR LEAHY: Is A.I.D. giving a lower priority to the ASHA program? Or, are you just lowballing the request, knowing that Congress always raises it?

MR. SANTOS: The Agency has not lowered the priority it gives to the ASHA program. The request is the same as in the past two years.

SENATOR LEAHY: Mr. Santos, if we were to appropriate only the $30 million you request for Fiscal Year 1990, what would happen in your program? How many of the current projects would still be able to receive new grants?

MR. SANTOS: The deadline for submission of applications for FY 1990 is August 31 of this year. We will not know until then the pool of applicants, which differs from year to year. As in the past, we expect a majority of prior year grantees who are periodic or annual applicants to apply as well as a sizable number of applicants new to the program. A third of the 76 applications in FY 1989 were on behalf of institutions new to the program. Eight were for institutions that have been annual recipients in the past five years. With a $30 million budget, the Agency will be able to fund a substantial ASHA program without taking funds away from other equally compelling development efforts.

SENATOR LEAHY: How many qualified applications for new grants would have to be turned down for lack of funds?

MR. SANTOS: In the past few years between 53 and 66 percent of the applicants have been assisted. As with other competitive grant programs, some qualified applicants will be less meritorious than others, not necessarily in their own right but in terms of ASHA's mandate and compared with the need, impact and cost effectiveness of other proposals.

REGIONAL BALANCE

SENATOR LEAHY: Mr. Santos, I understand A.I.D. has been trying to get away from the traditional emphasis, dating back at least two decades, on the Near East in this program and to shift more of ASHA program funds into Africa, Latin America and Asia.

I think it makes sense to spread this program in a balanced way around the world. How is your effort going? What progress are you making in achieving this goal?

MR. SANTOS: The geographic diversity of the program has broadened significantly. Prior to publication of ASHA criteria in the Federal Register in 1979 only 12 institutions in Africa, Asia and Latin America/Caribbean had received assistance. An additional 48 have been assisted in those regions since 1979. Comparing the first half of the 1970's with the three years ending FY 1988 shows that the percentage of program resources provided to institutions in Africa, Asia and Latin America/Caribbean increased from 21 percent to 56 percent. Europe declined from 18 percent to 5 percent and the Near East from 60 percent to 39 percent.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

ASHA PROJECTS IN SHANGHAI (FUDAN)

SENATOR INOUYE: Mr. Santos, as you know, there are two U.S.-based non-profit organizations -- the Fudan Foundation and the American Hospital in Shanghai Foundation -- currently sponsoring ASHA-supported projects in Shanghai, China. They were established to promote improved relations between the U.S. and China and to serve as models of Sino-American cooperation in the fields of education, science, technology, medicine, and trade. In addition, they are designed to serve both as demonstration centers for American teaching programs and also as showcases for American products and services, thus creating both goodwill and trade opportunities for U.S. businesses.

The Fudan Foundation is working with Fudan University in Shanghai to develop two new academic centers -- a Center for American Studies and the Thomas H. Morgan Science Center -- that will provide a unique opportunity for Chinese students to study American culture, history, literature, and science in their own country with instruction by visiting American scholars, public officials, and distinguished scientists, business professionals, and others.

After receiving very positive reports about the progress of these projects in China last year, the Committee expressed particular interest in them and encouraged ASHA to provide sufficient funding for them in fiscal year 1989.

What is your assessment of the value and accomplishments to date of these projects in China sponsored by the Fudan Foundation and the American Hospital in Shanghai Foundation?

MR. SANTOS: The cooperative planning and up-grading of facilities are the major accomplishments to date achieved by American and Chinese citizens working together for the purpose of establishing American-style educational and medical facilities in China.

SENATOR INOUYE: Are the projects being administered and implemented by the sponsoring groups in an effective and efficient manner?

MR. SANTOS: For the most part that is the case, especially the work involving renovation of existing facilities. However, plans for new facilities which were too ambitious have been redefined to emphasize the American Studies Center and diagnostic facilities.

SENATOR INOUYE: What level of funding will you provide for them in FY 1989?

MR. SANTOS: The proposals are presently being assessed with decisions expected during the summer.

SENATOR INOUYE: Mr. Santos, I understand that the projects in Shanghai, China that have been supported by ASHA have been very well received and are doing very well to date. I also understand that they have been successful for several reasons that may provide important lessons not only for similar efforts in China but also for those in other parts of the world as well. For example, the development of close working relationships with high-level Chinese officials in the education and health care fields (even before any proposals for specific projects were undertaken) has provided a solid foundation for all of the subsequent work that has been done on the projects. In addition, the careful planning process and the step-by-step way in which the projects have been designed and implemented have allowed the projects to avoid major mistakes and benefit from the experience gained in each phase of the projects.

Do you agree that these projects have been exemplary in (1) their ability to promote good working relationships with the Chinese and (2) their unique plan of renovating interim facilities before going into major construction of new facilities? Please comment on these factors both in terms of the projects in Shanghai as well as their application to other ASHA projects.

MR. SANTOS: The projects have been successful in promoting working relationships between American and Chinese citizens while renovated facilities permit an early start of program activities. All ASHA-assisted projects promote working relationships and strengthen ties between American citizens and those of other countries. ASHA project grants typically assist the renovation of obsolescent and construction of new facilities. In these respects the projects in China are analogous to other ASHA-assisted projects.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

INSTITUTIONS FOR THE HANDICAPPED

SENATOR HARKIN: Last year, this committee expressed its concern that ASHA may not have been funding international programs for the mentally and physically handicapped. Have you re-evaluated that position and what steps, if any, have been taken to address this concern?

MR. SANTOS: Schools and hospital centers for medical education and research founded or sponsored by U.S. citizens and serving as study and demonstration centers for U.S. ideas and practices are suitable candidates for ASHA assistance and will be given every consideration for funding. This includes those with programs for persons with learning and physical handicaps.

SENATOR HARKIN: According to conclusions found in several studies, persons with development disabilities who are trained for various employment opportunities significantly benefit society. They generate tax revenue, reduce long-term care costs, and eliminate their dependence on welfare. In light of these findings, what is ASHA's position regarding international programs training mentally handicapped individuals?

MR. SANTOS: All countries benefit from the training of individuals with learning handicaps when it enables such individuals to make a contribution to society. Schools and hospital centers for medical education and research engaged in such activities will be given every consideration.

SENATOR HARKIN: For more than two years Elwyn Institute, an internationally acclaimed American organization devoted to training the handicapped, has been making application for ASHA funding and has been told that training programs for the handicapped do not qualify.

Elwyn operates successful programs for Arabs and Israelis in Jerusalem. The institute operates schools, vocational training programs, and residential facilities, which all receive favorable reviews from both Arabs and Israelis participating in the program.

My question, Mr. Santos, is what is the current status of the Elwyn application for ASHA funding?

MR. SANTOS: Elwyn submitted information about its programs but never submitted a formal application. If an application is submitted for Fiscal Year 1990 it will be assessed with other schools and hospital centers for medical education and research depending on the nature of its programs.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN

ASHA PROGRAM ADMINISTRATION

SENATOR KASTEN: In its report last year, this Committee expressed its displeasure with the way in which ASHA has carried out its responsibilities to both Congress and certain program applicants. In particular, this Committee took exception to the seemingly inconsistent, vague and partisan way in which decisions on funding appear to have been made and reaffirmed its view that ASHA officials should "be as inclusive and helpful as possible in encouraging participation in the program." Much to my dismay, the Committee has continued to receive reports of apparent discrimination and highly questionable conduct in the management of the overall program. These allegations are included in a letter I sent to the A.I.D. Administrator on March 1, 1989. I ask that it be submitted for the record. What steps have you taken to bring the ASHA program into line with Committee views set forth in last year's report?

MR. SANTOS: A new procedure has been adopted so that all potential applicants will be provided with application forms and encouraged to apply. It had been our policy to have new applicants undergo pre-application screening prior to undertaking completion of an application. Most prospective applicants regarded this pre-application screening as saving those clearly ineligible the time and effort of completing the application. In the future, the assessment of eligibility as well as the merit of the proposal will be incorporated into the overall applications evaluation process undertaken by reviewers from within and outside the Agency.

SENATOR KASTEN: In view of persistent allegations that certain ASHA applicants have been denied proper application forms, had their applications pre-judged or been discouraged from seeking assistance, will you be reopening the FY 1989 application deadline for funding as I requested in my letter to the A.I.D. Administrator? If not, why not?

MR. SANTOS: To reopen the competition for FY 1989 would necessarily cause a significant delay in the award of grants for this fiscal year. To be fair to institutions which have undergone pre-application screening, we would have to announce the reopening of competition for FY 1989 grants so as to allow all of them sufficient time to prepare and submit applications and then reconvene reviewers to evaluate the applications. It is too late in the fiscal year to do that. By comparison, the normal deadline for submission of applications for consideration in FY 1990 is August 31, 1989. Accordingly, the new procedure noted in response to your previous question is effective for FY 1990 applications.

AMERICAN UNIVERSITY IN BEIRUT

SENATOR KASTEN: The United States continues to give a substantial amount of money to the American University in Beirut, most of which comes from your program. How are you able to determine how these funds you provide to A.U.B. are utilized?

MR. SANTOS: We receive an annual financial statement and an independent auditor's report prepared by certified public accountants.

SENATOR KASTEN: When was the last time anyone from your office was actually physically at the University for inspection or investigation?

MR. SANTOS: Just after the bombing of the U.S. Embassy in 1983, and before the assassination of AUB's President, Malcolm Kerr.

ASHA AND FOREIGN POLICY

SENATOR KASTEN: In view of the fact that your office supports the provision of funding to organizations like the American University in Beirut, can I assume that you agree with most of us that the ASHA program has a role in the conduct of foreign policy?

MR. SANTOS: The ability of the United States to achieve its foreign policy goals depends on the extent to which others share America's commitment to private initiative, free inquiry and innovative approaches to problem solving. Non-profit schools and hospital centers overseas founded or sponsored by U.S. citizens and serving as study and demonstration centers for ideas and practices of the United States are part of America's multifaceted relationship with people in other countries. Such educational and medical institutions help impart values of justice, democracy and respect for the individual. Such institutions can have significant impact, especially in countries lacking diversity in education and medicine and where exposure to American ideas and practices is limited.

AMERICAN HOSPITAL IN SHANGHAI FOUNDATION

SENATOR KASTEN: It has long been the view of this committee that health care and medical assistance programs are among the best, most cost effective ways to deliver the American message of peace and friendship around the world. In China this message is being carried forth by the American Hospital in Shanghai Foundation. In this city, among the most important commercial centers in Asia, the A.H.F. in cooperation with the Shanghai Municipal Health Bureau, is developing new medical facilities to provide high-quality medical care with state-of-the art equipment and technology. A committee staff member has just returned from a visit to China and has brought glowing reports of the success of this project.

Can I have your assurance that you will continue to support this most worthwhile project?

MR. SANTOS: Every consideration will be given to applications from the American Hospital in Shanghai Foundation for its project in China.

COMMITTEE SUPPORT FOR THE BIG 9

SENATOR KASTEN: In its report last year, this committee cited nine institutions in which it expressed particular interest. In the view of this committee, these institutions fulfill the highest objectives of the ASHA program which is to promote American values and ideals overseas. Mr. Santos, do you and your colleagues feel in any way obliged to consider the views of this committee when making funding decisions?

MR. SANTOS: The views set forth in Committee reports deserve and receive careful consideration. However, in order to allow all applicants to receive fair consideration, we do not prejudge who will receive funding. We try to treat all applicants fairly.

SENATOR KASTEN: When this committee expresses particular interest in institutions such as the Elwyn Institute, the Shaare Zedek Hospital, the International School of Agriculture, how can you then insist that they are ineligible for funding consideration?

MR. SANTOS: Two of the three institutions you cite were found ineligible under ASHA's prior procedure of pre-application screening. As noted earlier, pre-application screening of new applicants is being discontinued. Beginning with FY 1990, new applicants can submit completed applications for consideration and fully make their case without pre-application screening. However, it is important to note that there will continue to be cases where we must find institutions ineligible or less meritorious than others, not necessarily in their own right but in terms of ASHA's mandate and other proposals.

SENATOR KASTEN: Is it your view that this committee is unschooled in the way the ASHA program operates and ignorant of its own funding criteria?

MR. SANTOS: No.

ASHA REPORT TO CONGRESS

SENATOR KASTEN: In its report last year, this committee once again asked that A.I.D. look at the selection criteria for ASHA grant applicants with the objective of expanding it to include institutions which assist the mentally and physically impaired. The committee expected the Agency's response by no later than December 1, 1988. To the best of my knowledge, this report has not yet been prepared. It is now May 16, 1989. Do you have any intention of complying with the wishes of this committee and provide a report on the physically and mentally impaired?

MR. SANTOS: I regret our response is late but I can tell you that schools and hospital centers for medical education and research assisting the mentally and physically impaired are welcome to compete for ASHA assistance under existing criteria.

ASHA MANDATE TO SUPPORT INSTITUTIONS FOR THE HANDICAPPED

SENATOR KASTEN: Last year, in response to a question by Senator Inouye, you stated that in your view, the law provides no authority for assisting organizations which benefit the handicapped. Quite to the contrary, it is the view of this committee, as expressed forcefully in last year's report, that in fact the handicapped should fall within the rubric of the ASHA program. Can we expect to see any action on this matter this year?

MR. SANTOS: A.I.D. has reviewed ASHA legislation and concluded that institutions which work with the physically and mentally handicapped should apply for FY 1990 grants. They will be evaluated with other schools and hospital centers for medical education and research depending on the nature of their programs.

SENATOR KASTEN: Can I have your personal assurance, on the record, that ASHA will no longer disqualify an applicant merely because the institution serves the mentally or physically handicapped?

MR. SANTOS: You can be assured that applicants for schools and hospital centers for medical education and research which benefit the handicapped will be given every consideration.

SENATOR KASTEN: Are you now prepared to publicize the fact that ASHA will be pleased to accept grant applications from such institutions?

MR. SANTOS: We are pleased to accept grant applications from schools and hospital centers for medical education and research that benefit the handicapped.

NANJING CENTER

SENATOR KASTEN: The library at the Hopkins-Nanjing Center for Chinese and American Studies is being hailed as a major step forward in introducing American values to a group of young Chinese leaders. Presently containing over 30,000 volumes and 400 journal and newspaper subscriptions, this oasis of free speech and thought constitutes one of the most ambitious expressions of the new openness in China. The library's open stacks are accessible to all who desire to use the facility , providing Chinese researchers with the opportunity, possibly unique to that Communist country, to become acquainted with American ideas and culture. A Committee staffer, just back from a visit to the Nanjing Center, has only bolstered my belief in this program and the view that it must be continued. At a time of such vital change in China, is it your intention to work to preserve programs which given express to the reform movement and thereby directly support U.S. foreign policy interests in that country?

MR. SANTOS: Every consideration will be given to institutions which strengthen ties between the Chinese and American people.

SENATOR KASTEN: As we build up our presence in East Asia and accelerate efforts to improve the U.S. posture in foreign trade, it is imperative that we increase our knowledge of the people and culture of the region. This includes a mastery of language skills and an understanding of customary behavior. I understand that the Hopkins-Nanjing Center is providing such a resource base.

Do you agree that such study is crucial and that the Hopkins Center in China is pursuing that effectively?

MR. SANTOS: I believe the Hopkins-Nanjing Center for Chinese and American Studies is effectively demonstrating American-style graduate education in China and bringing together citizens of the two countries to increase mutual understanding. This is an important initiative which Johns Hopkins University launched. I hope the university continues to give the center its full support.

NANJING CENTER/BOLOGNA SCHOOL/FUDAN FOUNDATION

SENATOR KASTEN: If we are to retain our position as the preeminent trading nation in the world, we must provide adequate funding to our nation's export assistance programs as well as those institutions which train our citizens in foreign studies, language, and economics. The Nanjing Center in China, the Bologna School in Italy, and the Fudan American Studies program in Shanghai, China, are three exemplary programs which advance just these objectives. Do you share the view that these ASHA programs support the broad trade and foreign policy objectives of the United States by strengthening our understanding of other societies and the ways in which they respond to economic, social, and political pressures?

MR. SANTOS: Those are important adjunctive benefits derived from institutions meeting the overarching objective of serving as study and demonstration centers for ideas and practices of the United States.

ASHA "AMERICAN" SCHOOLS

SENATOR KASTEN: What is an "American" school by ASHA's definition?

MR. SANTOS: A school that meets the requirements of Section 214 of the Foreign Assistance Act and ASHA program criteria.

SENATOR KASTEN: To be considered "American," is it sufficient that the school demonstrate ideas and practices of the U.S. and be sponsored by U.S. citizens?

MR. SANTOS: Those are the basic requirements for consideration. Applicants must also demonstrate the extent to which they meet the ASHA program criteria which have been published in the Federal Register and various Congressional reports.

SCHOOL INCORPORATION

SENATOR KASTEN: Does either the legislation or ASHA's published criteria require that the school be incorporated in the U.S.?

MR. SANTOS: Neither the legislation nor criteria require that the overseas institutions be incorporated in the United States. It is sufficient that the applicants to the ASHA program, as the founders or sponsors of the overseas institutions, be nonprofit U.S. organizations.

HEBREW UNIVERSITY

SENATOR KASTEN: It is my understanding that the Hebrew University's Agricultural School demonstrates, in its teaching and research, ideas and practices of the U.S. because some 90% of its faculty has been trained in the U.S. and some of the key faculty and administrators are U.S. citizens. I also understand that the school is sponsored by the American Friends of the Hebrew University which is recognized by the IRS as a nontaxable 501(c)(3) institution. What other requirements must the school fulfill so that it qualifies for funding by ASHA?

MR. SANTOS: An applicant should demonstrate that ASHA program criteria are met. To qualify for funding, given the competitive and oversubscribed nature of the program, the application should demonstrate that the criteria are met to a significant degree and that the proposed use of funding is competitive in terms of need, impact and cost-effectiveness. The application submitted last year on behalf of the Hebrew University demonstrated neither significant involvement of U.S. citizens and U.S.-trained personnel at the school (Criterion 5) nor the ability of the school to reflect favorably upon and to increase understanding of the United States (Criterion 3). Rather, the application indicated that the school was an internationally known Israeli institution demonstrating Israeli ideas and practices. Given the broad range of meanings that the word "sponsor" has, it may be useful for Congress to legislate a definition of this word as used in the ASHA legislation. In addition, an institution must exhibit sound management and financial practices (Criterion 7). The Hebrew University's financial report for 1987 showed an accumulated deficit of $81 million. In addition the report noted acquisition of property $20 million in excess of available plant fund balances, which the university hoped Friends Organizations would finance. The financial report also stated that Hebrew University had not provided for pensions to employees with overall funding requirements ranging between $250 million and $400 million based on different actuarial assumptions, and that its pension liability may increase as a result of pending litigation.

INTERNATIONAL SCHOOL OF AGRICULTURE

SENATOR KASTEN: Last year in your testimony before this Subcommittee you stated (see page 357 of the hearing record), that ISA was not being funded because it is an Israeli institution demonstrating ideas and practices of Israel. Yet, one by one ISA has knocked down your objections by first incorporating in the United States (a suggestion made by your office), and then providing a lengthy list of American faculty working at or through the school. Surely this cross-fertilization of ideas is precisely the sort of thing we want to be doing with our ASHA funds. Have you not become so restrictive in the implementation of ASHA criteria for funding that you have sacrificed the original spirit of the program to bureaucratic efficiency and your own institutional convenience?

MR. SANTOS: That is not the case. It appears that you and we in A.I.D. had different information provided to us at different times.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

TIMING OF GRANT AWARDS

SENATOR D'AMATO: Mr. Santos, when can we expect the announcement of American Schools and Hospitals Abroad (ASHA) program grants for FY 1989?

MR. SANTOS: We expect grant awards to be made this coming summer.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

SHAARE ZEDEK HOSPITAL

SENATOR SPECTER: I take this opportunity to express again my interest in the Shaare Zedek geriatric hospital in Jerusalem, Israel. In the Senate Committee Report for the Foreign Assistance and Related Programs Appropriations Bill for Fiscal Year 1989, language was included which directed A.I.D. to provide sufficient funding for Shaare Zedek Hospital. I am advised that the Office of American Schools and Hospitals Abroad has not yet made final determinations on FY 1989 funding requests, including Shaare Zedek's. Due to the pressing need to expand Shaare Zedek's geriatric and chronic care capacities, I request that ASHA provide for the record a status report on Shaare Zedek's application.

MR. SANTOS: The proposal for the Shaare Zedek Hospital's geriatric center is one of 76 applications requesting $117 million. These proposals are presently being assessed with grant awards expected this coming summer.

INSTITUTIONS FOR THE HANDICAPPED

SENATOR SPECTER: Last year this Committee expressed its concern that ASHA may not have been sufficiently funding international programs for the mentally and physically handicapped. Has ASHA re-evaluated that position and what steps, if any, has the Agency taken to address this concern?

MR. SANTOS: A.I.D. has reviewed ASHA legislation and concluded that institutions which work with the physically and mentally handicapped should apply for FY 1990 grants. They will be evaluated with other schools and hospital centers for medical education and research depending on the nature of their programs.

SENATOR SPECTER: According to conclusions in studies, such as the "National Employment Survey for Adults with Developmental Disabilities," conducted by William E. Keirnan, et al., of Children's Hospital in Boston, on behalf of the Department of Health and Human Services, persons with developmental disabilities who are trained for various employment opportunities significantly benefit society. These individuals generate tax revenue, reduce long-term care costs, and eliminate their dependency on welfare. In light of these conclusions, what is ASHA's position regarding international programs that support training mentally handicapped individuals?

MR. SANTOS: School and hospital centers for medical education and research which assist the mentally handicapped and apply for assistance will be given every consideration.

SENATOR SPECTER: I am advised that for more than two years Elwyn Institute, an internationally acclaimed American organization which is devoted to training the handicapped, has been denied ASHA funding on the grounds that programs for the handicapped do not qualify.

According to the information provided to me, I understand that Elwyn conducts programs for Arabs and Israelis in Jerusalem which promote American values of tolerance, independence, and basic human dignity. This is accomplished through the operation of schools, vocational training programs and residential facilities. In light of the fact that Elwyn's qualities and accomplishments appear to be synonymous with ASHA's goals, I would appreciate an amplification of ASHA's reasoning regarding the denial of funding to this institution in the past and an indication of your office's position on Elwyn's funding request for Fiscal Year 1989.

MR. SANTOS: There has never been a formal application submitted by Elwyn Institutes for consideration. If such an application were submitted it would be assessed against ASHA criteria and for need, impact and cost-effectiveness with other schools and hospital centers for medical education and research for which assistance is requested.

SUBCOMMITTEE RECESS

Senator **Leahy**. This subcommittee will stand in recess until 2 p.m., on Thursday, May 18.

[Whereupon, at 4:09 p.m., Tuesday, May 16, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, May 18.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, JUNE 1, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senator Leahy.

DEPARTMENT OF STATE

BUREAU OF INTERNATIONAL NARCOTICS MATTERS

STATEMENT OF JAMES F. HOOBLER, DEPUTY ASSISTANT SECRETARY

ACCOMPANIED BY:
RAYBURN HESSE
JAMES VAN WERT

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Good afternoon. I apologize for being late, but we were tied up on the floor with a bit of a problem, an amendment that came up and kept me there for the last couple of hours. Apparently the State Department was giving some of the Senators the impression they were for a particular amendment and telling others they were against it, which, of course, raised some confusion. But I want to get as much at this hearing in as we can, prior to the next vote.

We are looking, of course, at the administration's fiscal year 1990 budget request for international narcotics matters. The witness will be Deputy Assistant Secretary James F. Hoobler.

Now, the one issue that we see in the 1980's—synonymous with the 1980's—is illegal drugs. I cannot believe anybody in this country, other than drug dealers, are in favor of the amount of drugs coming into the country. You hear a lot of speeches from people who are opposed to it, which is about equivalent to somebody standing up and courageously saying they were opposed to an early death.

But I think back to the 1960's when I was a prosecutor and we thought drugs were a problem then. I suspect most prosecutors today would be delighted to go back to the 1960's and have the problems of that time. At that time, there was hardly any cocaine in this country; in fact, I well remember the very first case involving cocaine I ever saw as a prosecutor.

Today, Americans are consuming 90 metric tons of it; there is not a single State in the country that is not affected by it. We pour hundreds of millions of dollars into stopping this flow, yet more and more comes in every year. We have more people addicted, more drug murders, more robberies, more lives, and money wasted.

You look at countries like Bolivia and Burma, where I believe the per capita income is about one United States dollar a day, and you can see why growing drugs or peddling them can be very appealing to them. But every year the problem does get a lot worse. Every year the administration asks for a pitifully small amount of resources. It is kind of like standing there facing a forest fire with a garden hose and saying, "But, by gosh, we are against the forest fire."

Well, we are not winning the war; the drug traffickers are. And this year is no exception. I have to wonder a little bit, gentlemen—and I realize some of these decisions are made outside your hands—but I have to wonder how the administration can even be serious with this budget request. I suppose it is better to say we are doing something than to say we are doing nothing, even if it is next to nothing. And we can sleep a little easier knowing that cocaine production last year was 230,000 metric tons rather than, maybe, 235,000 or so.

I know you are trying—I do not agree with everything you are doing—but I know you are trying. Now, your testimony, which will be made a part of the record, focuses on your accomplishments. And I suppose that is understandable. Thousands of hectares of marijuana and coca are destroyed; there is progress in getting governments to pass tougher laws, crack down on growers, and train their officials to catch traffickers. All good things, and it sounds a lot like progress, and I suppose it could be, but it is only about one-half the story.

In 1985, your budget was $50 million. This year you are asking for about double that. Now, during that same period, production of cocaine in countries where you spent those funds has increased from 162,000 metric tons to 230,000 metric tons. I think that is probably the more relevant statistic than the amount of money you are asking for.

And, of course, your testimony does leave out one major factor, and that is that the United States is now tied as the second-largest producer of marijuana. The amount grown here has reportedly doubled in just the past 2 years. I am almost waiting to see, when I wear my other hat as chairman of the Agriculture Committee, that we are suddenly going to hear about this major cash crop, and I suppose if there was some way that there could be an agricultural subsidy for it, we would.

But the fact is that it is a problem. You do not have the funds you need. The President will not raise taxes to fight drugs. He will give speeches saying that as a father and grandfather he is opposed to the illicit use of drugs, he is opposed to cocaine, he is opposed to the damage it does, and certainly, I do not doubt his sincerity.

But as President he must ask—just as we here in the Senate have to ask—are we willing to actually raise the money to fight drugs? Giving the speeches is the easy part. Our staff can write those usually a lot better than we can. But voting for the money is the hard part; that is the one thing that the President and members can do and we ought to do it.

So, I suppose everybody would like to say, "Let's just throw our hands up and walk away." You obviously cannot do that; none of us intend to do it. I hope that we will get past the rhetoric and actually start putting money into a war on drugs this year. It has not happened yet.

Last year during the Presidential campaign, when we were told that the major issues facing the Nation was Willie Horton being on parole and whether people were willing to pledge never to raise the money to run the Government, Senator Rudman and I actually proposed that we increase taxes and earmark it specifically on the war on drugs. I must say, among all the Republicans and the Democrats in the Senate, we got one-third of the Senate to vote with us.

So I do not mean to single out the administration as being cowardly on trying to raise the money to fight drugs; the U.S. Senate did not do a heck of a lot better. I hope now, with some Senate leadership and Presidential leadership and House leadership, maybe we would be willing to go back and say that—as often happens in campaigns—the rhetoric was fraudulent and we will actually raise the money to do it.

PREPARED STATEMENTS

In the interest of time, I would like to proceed directly to questions. Your prepared statement, of course, will be part of the record. I will leave the record open for opening statements by members as well.

[The statements follow:]

STATEMENT OF SENATOR ALFONSE M. D'AMATO

THANK YOU, MR. CHAIRMAN. I WANT TO WELCOME SECRETARY HOOBLER. I APPRECIATE YOUR APPEARING THIS AFTERNOON TO TESTIFY.

I NOTE IN YOUR TESTIMONY THAT THE STATE DEPARTMENT CONSIDERS COCAINE ITS "FIRST PRIORITY". I COULDN'T AGREE MORE. MY UNDERSTANDING IS THAT VARIOUS LATIN AMERICAN COUNTRIES HAVE RESISTED USING HERBICIDES TO COMBAT COCA PRODUCTION CITING HEALTH CONCERNS. I HOPE YOU WILL BE ABLE TO COMMENT ON THIS.

I WOULD ALSO BE INTERESTED TO HEAR YOUR VIEWS ON THE DRUG FIGHTING EFFORTS BEING MADE BY MEXICO. THE ARREST OF FELIX GALLARDO AND THE MASS ARREST OF CORRUPT OFFICIALS IN CULIACAN IN APRIL WAS A REAL COUP. THE MEXICAN GOVERNMENT WAS RIGHTLY PRAISED, BUT I WONDER IF GALLARDO WASN'T OFFERED UP AS A SACRIFICIAL LAMB TO PREVENT DECERTIFICATION. OFFICIAL CORRUPTION IN MEXICO REMAINS RAMPANT, AND YEARS OF EFFORT APPEAR TO HAVE HAD NO IMPACT ON MEXICO'S DRUG PRODUCTION. YOUR THOUGHTS ON THIS, SECRETARY HOOBLER, WOULD BE APPRECIATED.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF JAMES F. HOOBLER

The Subcommittee on Foreign Operations will hear testimony today on the President's appropriations request for international narcotics control operations in FY 1990. The Committee on Appropriations has received our Congressional budget presentation, which, with your permission Mr. Chairman, I will summarize.

I. Summary

The President has submitted a FY 1990 budget request of $115 million for the International Narcotics Control program of the Department of State, an increase of $14 million over current year funding.

In this testimony, the Bureau of International Narcotics Matters, which is responsible for both policy development and program implementation, provides the Committee with a proposed plan for requested funds. The spending plan is arrayed against the framework of our global strategy and also our statutory responsibilities.

Responsibilities for The Program

The responsibility for International Narcotics Control, conferred upon the President by Section 481 of the Foreign Assistance Act and the Secretary of State by Executive Order, has been delegated to the Assistant Secretary of State for International Narcotics Matters (Authority No. 145, February 4, 1980). Assignment of the responsibility for international narcotics matters to the Department of State is consistent with U.S. Government policy, as narcotics control is a matter of Government responsibility under international treaties to be dealt with as a matter of international obligation and concern. In May 1987, the National Drug Policy Board reaffirmed this authority by designating the Department of State as the lead agency for international narcotics control.

The responsibilities and programs of the Department of State are implemented by the Bureau for International Narcotics Matters (INM). These responsibilities include:

developing narcotics control policy and coordinating international programs;

influencing key decision-makers through diplomatic initiatives; raising international public awareness that drug abuse is a serious global problem;

providing bilateral and multilateral assistance for crop control, interdiction and related enforcement activities to immobilize traffickers in producing and transiting nations;

granting narcotics-related development assistance;

providing technical assistance for demand reduction;

training foreign personnel in narcotics control procedures; and

coordinating international efforts with domestic drug control strategies.

In short, the Department pursues U.S. Government international narcotics control objectives through planning, negotiating, implementing, and terminating bilateral and multilateral narcotics control agreements with foreign governments.

II. Current Program

The worldwide supply of illicit narcotics continues to exceed the global demand for these substances. Drug traffickers have successfully sought and found new markets for the oversupply of narcotics which has resulted in the creation of addicted populations in countries previously immune to the effects of narcotics production and trafficking. Pakistan, Bolivia, Peru, India and the Soviet Union have recently joined the United States in acknowledging the severity of their respective drug addiction problems. The urgency of the drug situation in the United States and the global expansion of drug abuse necessitate immediate action to reduce the worldwide supply of and demand for narcotics.

The ready availability of cocaine in the United States justifies the need for additional resources to curtail the cultivation of coca and production of cocaine as close to the source as possible. The United States is not alone in drugs were given high-level diplomatic attention during the Toronto Summit, the United Nations International Conference on Drug Abuse and Illicit Trafficking, and the annual meeting of the Organization of American States. It is evident that the world community has now acknowledged narcotics abuse as a common problem that requires an international solution.

Many nations have recognized the urgency of a domestic narcotics problem as a risk to their economic and political survival. The acceptance of narcotics as an international problem provides new and immediate opportunities for implementing effective action plans.

The U. S. Government has taken significant actions on the supply and demand reduction sides of the narcotics issue. Over the past year, the Administration has expanded domestic and international programs to address production, processing, smuggling, distribution, and consumption patterns abroad as well as in the United States.

The April 1986 National Security Decision Directive (NSDD), signed by President Reagan, states that illicit narcotics constitute a national security threat, thereby enabling Department of Defense personnel and resources to be used in a support capacity in the war against drugs. Also, the amendment of the Posse Comitatus Statute (10 USC 374) has allowed United States military forces to participate in narcotics control operations overseas and has permitted the use of U.S. Government military assets to support law enforcement activities. When invited by host governments and approved by the Attorney General and the Secretaries of State and Defense, the military can and has become an active participant in narcotics control.

For the past two years, the National Drug Policy Board, chaired by the Attorney General, coordinated the formulation and implementation of the U.S. Government's drug policies. This policy coordination role will be undertaken by the newly appointed Director of National Drug Control Policy, a position created by the 1988 Omnibus Drug Bill. As was the case with the Policy Board, the "drug czar" will address both supply and demand policy issues. Resolution of international narcotics control issues will, however, continue to be the responsibility of the Department of State, as specifically noted in the Omnibus Drug Bill. The Department will also continue as the lead agency for international drug control matters and will coordinate the activities of other agencies involved in overseas drug control efforts, i.e., the Drug Enforcement Administration (DEA), the U.S. Customs Service, and the U.S. Coast Guard.

Goals and Objectives. Given that all of the heroin and cocaine and much of the marijuana consumed in the United States are of foreign origin, the Bureau's primary goal is to prevent the flow of illicit drugs from their sources to the United States. The worldwide supply of drugs is so great and trafficking channels to the United States so diverse that major interdiction and crop eradication efforts have until now caused only temporary declines in availability. The Department's program strategy is therefore predicated on the ultimate objective of simultaneously controlling cultivation and production of illicit drugs in all key geographic regions, so that significant and lasting reductions in availability can be achieved. The Department places its highest priority on crop control in source countries and its second priority on immobilization of trafficking organizations and interdiction of drugs as they move from producing areas, through transit countries, to the United States.

Strategy. The major drug producing countries are parties to international conventions which require them to control the production and distribution of illicit drugs. Consequently, the Department's international strategy is based on encouraging and, where necessary, assisting these countries to meet their responsibilities for reducing cultivation, production, and trafficking of illicit narcotics within their borders. The strategy includes the following activities:

> Diplomatic initiatives to emphasize the importance of narcotics control as a bilateral foreign policy issue and to seek agreements on controlling narcotics; such initiatives underline the threat posed by illicit drugs to all governments and therefore seek to upgrade the foreign policy priority assigned to narcotics control, to secure the participation by other governments in program funding, and to otherwise support international narcotics control projects;
>
> Bilateral assistance to selected governments where expertise or resources are insufficient to meet treaty obligations for the control of illicit drugs;
>
> Multilateral assistance through the United Nations Fund for Drug Abuse Control (UNFDAC), as well as other regional and international agencies and organizations;
>
> Participation in international organizations to supplement our bilateral diplomatic initiatives with producing and transiting nations, to demonstrate the global nature of illicit drug trafficking, and to enlist other governments' diplomatic and financial support of international narcotics control projects, i.e., both bilateral and multilateral arrangements;
>
> Training assistance to foreign narcotics control personnel conducted through the U.S. Drug Enforcement Administration, U.S. Customs Service, and U.S. Coast Guard; this department-funded training will improve and expand foreign enforcement efforts toward achieving self-sufficiency;

Demand reduction and public diplomacy programs to alert other governments and community leaders to the political and socio-economic threat posed by illicit drug abuse, to decrease demand in producing countries, to stimulate local incentives to curb illicit cultivation and to enhance U.S. Government efforts to obtain narcotics control agreements by demonstrating concern for deleterious effects in other countries;

Coordination of multiprogram efforts conducted abroad by U.S. Government agencies involved in international narcotics control.

III. FY 1990 Plans

The President's FY 1990 budget request of $115,000,000 reflects the growing international concern about narcotics production and trafficking and the increased willingness of the international community to engage in bilateral and multilateral narcotics control agreements.

Latin America. The seriousness of the United States' cocaine epidemic and the mandate from the National Drug Policy Board that the cocaine problem should be our first priority dictate that over half of our international narcotics control resources be spent in Latin America. This area of the world serves as the source for all the cocaine, most of the marijuana, and about a third of the heroin entering the United States. Bolivia and Peru produce by far the major share of the coca leaf among the Andean countries, i.e., approximately 178,400 metric tons of leaf. Coca leaf production is also increasing in Colombia which remains the predominant refiner for the world's supply of illicit cocaine.

Colombia, Mexico, Jamaica, Belize and Paraguay are significant cultivators of marijuana. Moreover, several Central American and Caribbean states also produce marijuana and, along with Mexico, serve as important transit points for cocaine. Mexico produces at least 30 percent of the heroin arriving in the United States.

While production of opium, coca and cannabis remain high in source countries which export illegal drugs to the United States, there were significant accomplishments during 1988: eradication of more than 5,000 hectares of marijuana in Colombia, including about 90 percent of the crop in the traditional areas, through aerially-applied herbicides; eradication of more than 80 percent of Belize's marijuana; eradication of approximately 60 percent of Jamaica's marijuana through use of manual eradication and backpack sprayers; initiation of an aerial spraying campaign for marijuana and opium poppies in Guatemala, and increased eradication of marijuana and poppies in Mexico. Additionally, the Department expanded its testing for a safe and effective herbicide to be used against coca and supported an unprecedented enforcement effort in Bolivia, as well as a serious voluntary eradication program which resulted in the destruction of over 2,000 hectares of coca.

Other accomplishments include arrests of major cocaine traffickers Carlos Ledher (Colombia) and Roberto Suarez (Bolivia); installation and successful utilization of a Joint Information Coordination Center in the Dominican Republic; renewed enforcement efforts in Peru in spite of increased trafficker and insurgent violence in the area; and the formation of an OAS Commission for Narcotics Control (CICAD).

Reflecting the Department's highest priority on cocaine trafficking, three of the four largest INM programs are dedicated to coca reduction in the Andean region. Once a host government selects and is able to purchase an environmentally safe and effective herbicide for use against coca, INM is prepared to support a full-scale coca eradication campaign.

In FY 1990, the Colombia program will continue to support anti-narcotics police enforcement efforts to destroy cocaine processing laboratories throughout the country, to interdict the flow of cocaine to the United States, and build upon the existing 1987-88 aerial campaign to eliminate cannabis entirely, including newly-discovered growth.

In Ecuador, Peru, Bolivia, Brazil and Venezuela, funds will be used for both interdiction efforts and eradication. Enforcement assistance will continue to play a dominant role in these countries, with special focus placed on sustained interdiction and security support for police and eradication workers. Significant infrastructure support will be provided to host-government field units in Peru and Bolivia.

Increased funding is requested to cover costs of maintenance support for the Mexican eradication fleet and aerial survey efforts. The Department continues to seek improvements in all aspects of the Mexican campaign against opium poppies, to increase the availability and utilization rates of the Mexican air fleet, and to alleviate current pilot shortages.

In the Caribbean, the Department will continue to press the Government of Jamaica to begin aerial eradication of marijuana to maximize the efficiency and effectiveness of its eradication program. Funding will be provided for aircraft support in pursuit of both interdiction and eradication objectives.

The Latin American Regional program will support eradication programs in Belize, Guatemala, and the Caribbean, as well as interdiction support to the Governments of Argentina, Paraguay, Uruguay, and Chile. Latin America Regional funds provide flexibility to grant resources for operations in countries that do not have separate budgets, upgrade the enforcement capabilities of police in many countries, and support such regional activities as the National Narcotics Border Interdiction System (NNBIS) efforts, joint maritime interdiction efforts, etc.

East Asia. The "Golden Triangle" countries of Thailand, Burma, and Laos produced an opium crop estimated in the range of 1,298 to 1,833 metric tons in 1988 and almost the same amount will be produced in 1989; the bulk of this opium comes from Burma and Laos. Significant initiatives in the area include expected resumption of the Burmese aerial eradication program, which had expanded every year since its inception in 1985. Operations in Burma have been temporarily suspended due to the current political situation. Once the government stabilizes and the U.S. Government's foreign assistance resumes, it is hoped that the program will continue previous efforts. Supported by U.S. Government funding for aircraft, equipment and training, this spray program will allow the Socialist Republic of Burma (SRUB) to reach previously inaccessible cultivation areas controlled by insurgents. In FY 1990, resources will be provided to enable the Burmese Government to continue operations aimed at narcotics producing and trafficking groups. The Department will support the ongoing program to maintain and repair rotary-wing and fixed-wing aircraft previously supplied to the Burma Air Force and, to the extent possible, will also support Burma's medium-lift logistics requirements.

Thailand's opium production continues to be contained through an effective crop control policy. The FY 1990 budget provides funding to help the Royal Thai Government further contain opium poppy cultivation by continuing "bridge" assistance to farmers who agree not to cultivate poppy or whose poppy crop is eradicated. The major shift in Thailand, however, is to support Thai enforcement agencies efforts to stop the flow of opium through the country and destroy the marijuana crop.

Laotian production of opium, heroin and marijuana continue to present severe problems; cultivation and trafficking are expanding. U.S. officials will continue to raise the issue of opium and marijuana control with the Laotians in both bilateral and multilateral fora.

Southwest Asia. Opium production in the Southwest Asian countries of Afghanistan, Pakistan, and Iran was estimated at 1,090 to 1,420 metric tons in 1988, with prospects for reductions only in Pakistan where a modest aerial spray program was implemented during the 1987 and 1988 crop seasons. Nearly half the heroin marketed in the United States is estimated to be derived from Southwest Asia opium. In response to the serious increases in opium cultivation, the Government of Pakistan has enforced the poppy ban in all settled and merged areas with (or without) the promise of development projects. Pakistan has also accepted restrictive poppy clauses which commit its Government to keeping the U.S. Government's AID project areas free of opium poppy.

In FY 1990, the Department will support the extension of Pakistan's ban on opium poppy cultivation to the Bajaur and Mohmand regions by introducing improved agricultural crops and by providing income alternatives through an integrated rural development scheme which will include roads, wells and rural electrification. The Department will continue the implementation of this effort throughout FY 1990, as well as pursue other outreach activities to prevent the spread of opium poppy cultivation and help poppy growers substitute other new crops in areas where major development assistance projects are not being carried out. Funds have been included in the budget for Afghanistan in the event that by late FY 1990 the political situation will permit negotiation of bilateral crop control efforts.

The Department will continue to provide commodities to support the narcotics interdiction capabilities of the Turkish Government. Funding is also included to support a regional telecommunications advisor in Pakistan to work with counterparts in Turkey, Pakistan, Burma, Thailand and other Asian countries.

Interregional Aviation Support. In 1983, INM began operating its own fixed-wing spray aircraft to eradicate narcotics crops within overseas source countries. The Omnibus Anti-Drug Act of FY 1986 mandated that the U.S. Government retain title of all aircraft used in host country narcotics control efforts. For this reason, a centralized, interregional aviation support program was created. This program provides U.S. Government-owned and INM centrally-managed aviation support to implement our overall international narcotics control responsibilities. This program enables the U.S. Government to:

(1) assist host governments in eradicating crops by means of aerially-applied herbicides and manual destruction;

(2) seize/destroy illicit narcotics and narcotics production and distribution capabilities;

(3) immobilize major traffickers;

(4) provide logistic support to field organizations; and

(5) conduct strategic and tactical surveys to identify production and verify program results.

In FY 1990, we will support maintenance, hangaring, and operational costs for 54 Department-owned aircraft used in aerial and manual eradication, interdiction operations, and survey and logistical support activities. The principal focus will continue to be on Peru, Bolivia and Colombia, as well as smaller efforts in Jamaica, Guatemala and Belize.

Interregional Training/Demand Reduction. We will provide expanded training through DEA and Customs for approximately 2,200 foreign officials from 55-60 countries. Training will include 50 in-country programs, 14 programs conducted here and 30 Executive Observation Programs. Increased emphasis will be placed on other Department sponsored programs, e.g., maritime interdiction training and narcotic detector dog training.

The Department's centrally-managed public diplomacy and demand reduction program contributes to international narcotics control by mobilizing support for narcotics control policies and programs in key producing and transiting countries. These projects encourage greater political and public awareness of the link between domestic drug abuse, international trends in production and trafficking, and the steps which societies and governments can take to control the drugs. The program also provides technical assistance in the areas of drug abuse prevention, treatment and related research to help countries such as Pakistan, Ecuador and Bolivia deal with their domestic drug abuse problems.

International Organizations. The FY 1990 budget will provide expanded funding for the United Nations drug control agencies, including the United Nations Fund for Drug Abuse Control (UNFDAC), the Colombo Plan's efforts for regional narcotics control activities, and other drug programs undertaken under the auspices of other international organizations such as the Organization of American States (OAS) and the Pan American Health Organization (PAHO).

Program Development and Support. Finally, the FY 1990 budget provides funds for technical and administrative support for the overall international narcotics program which is not otherwise tied to bilateral projects or specific interregional activities. This budget provides funding for Washington-based personnel costs, program development and evaluation, special studies and administrative costs of the bureau.

FY 1990
International Narcotics Control Program
Fiscal Summary
($ in thousands)

COUNTRY PROGRAM	FY 1988 Enacted	FY 1989 Estimate	FY 1990 Request
LATIN AMERICA			
Bolivia	$15,000 1/	$10,000	9,200
Brazil	2,340	200	1,900
Colombia	9,767	10,000	10,000
Ecuador	1,000	1,000	1,400
Jamaica	1,900	1,000	1,900
Mexico	14,500	15,000	15,000
Peru	7,500	10,000	10,000
Venezuela	--	700	1,000
Latin America Regional	7,000	7,000 2/	7,000
subtotal	59,007	54,900	57,400
EAST ASIA			
Burma	5,000	3,000	7,500
Thailand	3,935	3,900	3,500
subtotal	8,935	6,900	11,000
SOUTHWEST ASIA			
Pakistan	5,075	5,300	5,700
Turkey	350	350	350
Asia/Africa Regional	369	450	450
subtotal	5,794	6,100	6,500
INTERREGIONAL AVIATION SUPPORT	13,414	22,700	28,000
TOTAL COUNTRY PROGRAMS	87,150	90,600	102,900
INTERNATIONAL ORGANIZATIONS	3,100	1,100	3,100
INTERREGIONAL TRAINING and DEMAND REDUCTION	5,200	6,000	5,500
PROGRAM DEVELOPMENT AND SUPPORT	3,300	3,300	3,500
TOTAL INM PROGRAM	$98,750	$101,000	$115,000

1/ The $15 million program budget for Bolivia was earmarked by Congress in its FY 1988 Continuing Resolution.

2/ The FY 1989 Foreign Assistance Act earmarked $7 million program budget for Latin America Regional.

INTERNATIONAL NARCOTICS CONTROL PROGRAM
BY FUNCTIONAL ACTIVITY
($000)

	Enacted FY 1988	% of Total	Estimate FY 1989	% of Total	Request FY 1990	% of Total
CROP CONTROL/ ERADICATION	$35,864	36	$41,763	41	$47,633	41
ENFORCEMENT ASSISTANCE AND INTERDICTION	41,364	42	37,082	37	42,412	37
INCOME REPLACEMENT/ DEVELOPMENT ASSISTANCE	3,000	3	3,000	3	3,300	3
INTERNATIONAL ORGANIZATIONS	3,100	3	1,100	1	3,100	3
INTERNATIONAL DRUG DEMAND REDUCTION	1,525	2	2,925	3	2,825	2
TRAINING	4,550	5	4,500	5	4,500	4
PROGRAM DEVELOPMENT AND SUPPORT	9,347	9	10,630	10	11,230	10
TOTAL PROGRAM	$98,750	100	$101,000	100	$115,000	100

WINNING THE DRUG WAR

Senator LEAHY. The Secretary of State was quoted recently as saying the global war against drugs is clearly not being won and maybe slipping backwards. I am told coca production in Latin America jumped from 521,000 acres in 1987 to 560,000 last year. That is why you had eradication efforts underway.

Assistant Secretary Wrobleski says the Latin governments cannot get a grip on production. So, do we have a war on drugs underway here? I mean, is Secretary Baker telling it accurately when he says the war against drugs is clearly not being won and may be slipping backward? How would you answer that?

Mr. HOOBLER. Thank you, Senator. I would say that the new administration is very concerned with the lack of progress you cited and is currently conducting a formal review, particularly of the international program. That review should be completed, I am told, in another month or so. It is being done in tandem with former Secretary Bennett's, now the drug czar, review of the strategy that this Government will employ.

So I think Mr. Baker, in effect, is suggesting that he is not happy with what he sees since taking over as Secretary of State, and he is looking for more progress in the year to come.

Senator LEAHY. When will that review be done?

Mr. HOOBLER. As I recall, the drug czar's strategy is due here September 6.

Senator LEAHY. Just pull the microphone just a little bit closer; we are having a little echo problem with it. Go ahead.

Mr. **Hoobler**. The strategy is due on the Hill September 6, and the administration's review should be completed shortly; I would say within 60 days.

Senator **Leahy**. Is the administration going to ask for more money if it is needed?

Mr. **Hoobler**. That I cannot say at this juncture.

Senator **Leahy**. Are you involved at all with that study and that review?

Mr. **Hoobler**. Yes; we have been involved intimately with the international aspects of these reviews, both those conducted by the drug czar's office and the White House.

Senator **Leahy**. Have you been told in any way to restrain your recommendations if they cost extra money?

Mr. **Hoobler**. No; we have not been given any guidance along those lines. We are to address the problem as we see it and then make recommendations for their resolution.

Senator **Leahy**. So, if you found that $50 million was laughable and you said it was really going to cost $400 or $500 million or whatever it was, you would be free to make that recommendation?

Mr. **Hoobler**. Absolutely.

DRUG WAR IN LATIN AMERICA

Senator **Leahy**. Did you see the article in the Washington Post last week with the headline, "U.S. Suffering Setbacks in Latin Drug Offenses"?

Mr. **Hoobler**. Yes; Saturday's Post.

Senator **Leahy**. Yes; let me just read for the record a couple of points.

> DEA agents in the world's prime coca-growing region in Peru have been instructed to return to Lima every night for their own safety, as guerrillas aligned with drug traffickers have gunned down 10 policemen in this area this month. The escalating violence in Peru is the most dramatic example of what many believe is the near breakdown of United States antidrug policy throughout Latin America.

Then it goes on to say that:

> Coca production in Latin America has soared to unprecedented levels, enough to produce more than 1 million pounds of cocaine this year, nearly twice than during the mid-1980's.

It said, "United States-financed programs to manually uproot the coca crop have slowed in Bolivia and come to a halt in Peru." And then the article goes on to say, basically, that the program is in total disarray, it is pointless to try to deal with the problem by cutting off the supply. Do you agree with that?

Mr. **Hoobler**. No; I do not agree. I would say, first of all, that there has been a standdown in operations in Peru——

Senator **Leahy**. There has been a what?

Mr. **Hoobler**. There has been a standdown in operations——

Senator **Leahy**. What does that mean?

Mr. **Hoobler**. That means we have ceased operations——

Senator **Leahy**. Stopped them. Why?

Mr. **Hoobler**. That is correct. Eradication and interdiction operations have been stopped at the Ambassador's order. The reason for that order is that the situation, obviously, is not safe and until such time as we can guarantee that our people are safe, those operations will not be resumed.

Senator **Leahy**. Do you see that as coming in in the foreseeable future?

Mr. **Hoobler**. Yes; I would say by the end of the summer we will have completed the security at the operations base at Santa Lucia and, more than likely, operations will be resumed.

Senator **Leahy**. According to a February 1989 House Foreign Affairs Committee report on narcotics in Peru, Bolivia, Colombia, and Mexico, these countries are "largely unwilling or unable to seriously engage in antinarcotics efforts. The best the United States can probably hope for is that they continue to permit U.S.-sponsored activities." Do you agree with that?

Mr. **Hoobler**. Well, I do not know if I agree entirely with the statement. I think that one could argue that perhaps these governments have not, at the moment, the will or at least the perceived resources on their part to deal with narcotics control as effectively as we would like.

FOREIGN COOPERATION IN THE DRUG WAR

Senator **Leahy**. Well, the reason I ask is that the report says that, given the limitations of most governments, all meaningful antinarcotics efforts have been and will, for the conceivable future, be conceived, financed, and implemented or supervised by the United States.

And, yet, in your statement, you say that INM's strategy is based on encouraging, and where necessary, assisting countries to meet their responsibilities for reducing cultivation, production, and trafficking of narcotics.

Now, if the House committee says these countries will not do it or cannot do it, are we being a little Pollyannic?

Mr. **Hoobler**. I do not think so——

Senator **Leahy**. In saying we can encourage them to do it? Well, we have not been too successful, have we?

Mr. **Hoobler**. Well, I could not argue that we have been overly successful. On the other hand, I would argue that these are sovereign countries with which we are dealing.

Senator **Leahy**. I understand. Please do not miss my point. I well respect the sovereignty of these countries and I realize we cannot just walk in and tell a country what to do, I am not suggesting we do.

But, if our strategy is based on asking them to take responsibility, and if we are not going to ask them because of either sovereignty or unwillingness, then do we need a new strategy?

Mr. **Hoobler**. Well, I think that this is the fundamental question that is under review at the moment, as I mentioned a moment ago. Both the drug czar and the White House are very concerned with what we are doing, and all of those issues are being addressed comprehensively. Perhaps we need a new strategy; we will have to see what the decisionmakers offer.

GENERAL NORIEGA

Senator **Leahy**. Well, I wondered about that because the U.S. attorney came up to the Hill and testified—the one who indicted General Noriega—and then he was told by the administration, "You cannot do that; leave him alone," and they prevented him from prosecuting some major drug kingpins.

I remember for several years I was one of the very few and certainly one of the first people in the Congress to be critical of General Noriega. And I got told by this tough law and order administration at the highest level, the Cabinet level, that, "Oh, you cannot do that; General Noriega is a good friend of ours."

And every few weeks DEA would fly down there to give him another medal, award, commendation, even if they had to invent one. You know, the General Noriega of the Month Award.

It appeared to me that one of the reasons they did that is that he would do two things: one would be, to help make us look good; and he would tell the DEA people they ought to seize such-and-such a shipment out of this particular mode of transportation.

Then they would pose with it the next day and say, just-seized cocaine which has a street value of $3,429,526.18—we were always very good at figuring the street value. They may have bought it for $25,000 to begin with, but it is always the street value that counts. And then everybody looked good. Now, the fact might be that somebody failed to pay a bribe to General Noriega so they get turned in, while a lot of other drug runners got through unscathed.

Also, there is the fact that General Noriega was carefully helping the administration substitute a covert action policy for a foreign policy, that was, of course, patently illegal and illicit, so we turned our back on his illegal actions. We were willing to allow millions of our young people get involved with drugs or at least get exposed to them.

So, I would hope that the new administration would forget the rhetoric and the crap and actually start doing something. You know, it is one thing to stand up and just talk tough, for the administration to stand up and talk tough about being against drugs, well, hell, we all are.

I spent 8½ years as a prosecutor; I do not have to have somebody lecture me on how we should do that. But when you start coddling a Noriega because he might help with the contras, for example, it speaks ill of our priorities. Or to stand up and say we are tough and we are against drugs, and, by God, we cannot understand how those un-American liberals, for example, have allowed this Nation to get involved with drugs, but we are against it.

MARIJUANA PRODUCTION IN UNITED STATES

I would suggest, when you go back, you might tell them that they should talk to Senator Rudman and I and a few others who are willing to actually raise the money. Now, a DEA report released 2 weeks ago says U.S. marijuana production rose by 38 percent last year. That is about twice what it was 2 years ago. My notes say that we are tied with Mexico as the world's second-largest producer after Colombia.

What does this do for our credibility when we go to these other countries and say, "You ought to slow down." They say, "What the hell? You are the market; you do not even slow down your own. Why should we? And you are an affluent country, and we are poor and we need the money." How do you respond?

Mr. **Hoobler**. It is obviously very difficult for us when they cite our own production record here in the United States. We are constantly barraged with queries from Ambassadors as to what is the current state of play with the marijuana eradication in this country. So I would agree with you; it is extraordinarily difficult for us.

Senator **Leahy**. I do not mean to be—I hope you do not take any of this personally, and I do not intend it that way. But I just wonder if we are more interested in symbolism in this country than reality. So many times it seems that, if something photographs well or sounds well, that is it. The reality is the image, not the reality.

In rural America, everybody who runs for office, Republican or Democrat, likes to go and get photographed with the basic bedrock values of America, rural America. And then, of course, ignore the fact that it has twice the illiteracy, twice the homelessness, twice the poverty rate, twice the unemployment, and so on and so forth, because, if you admit that, you have got to spend the money for it.

COST OF THE DRUG WAR

Well, its the same thing here. Total narcotics production increased last year; more drugs floated into the United States, not less. How much is it going to cost—or is it even possible, is it even possible to stop that?

Mr. **Hoobler**. I would answer your question this way, and it is really a personal opinion and not an official position—I think that our Government has to focus on what are the incentives for these producing countries to cooperate at a level higher than they are currently cooperating? And I would also agree that, when one looks at what we have spent as a Government, a $115 million request for the international program looks pretty sparse.

I believe we are spending something like $3.8 billion or $4 billion overall, but most of that money is being spent on law enforcement domestically. And I think——

Senator **Leahy**. $115 million is based on your strategy, predicated on simultaneously controlling cultivation production in all key geographic regions?

Mr. **Hoobler**. That is correct. That is the international dimension of the $3.8 to $4 billion that we are spending. I think we have to wrestle, as a Nation, with the question of what are the incentives for these producing countries to participate. We have to recognize, whether we like it or not, that most of these producing countries have very few alternatives at this juncture. Narco-dollars are extraordinarily important to their economies, and I believe until that fact is faced by the new administration, we probably are going to see these statistics rise.

Senator **Leahy**. You know, there are some individual drug cartels, that net considerably more—even if they paid taxes on it, no tax shelters, straight out, withholding, standard deductions—net a lot more than you get in your budget for the year. Is that not correct?

Mr. **Hoobler**. That is correct.

CRASH OF INM PLANE IN PERU

Senator **Leahy**. What was the cause of the crash of the DEA plane 10 days ago in Peru?

Mr. **Hoobler**. Well, first of all, it was an INM plane; that is, a State Department plane——

Senator **Leahy**. I remember. I am sorry.

Mr. **Hoobler**. We held title to the aircraft. As far as we can determine at this juncture, it was pilot error. There is no evidence of sabotage, whatsoever.

Senator **Leahy**. I ask that because there was an article in February that said that United States helicopters ferrying agents in Peru are routinely fired upon. I assume you are double-checking that to make sure.

Mr. **Hoobler**. Yes; we have an investigation team in Peru. We had the Department of Transportation's FAA and National Transportation Safety Board join the team. We also had some pathologists from DOD. The whole team went down there and looked at the situation and, to the best of our knowledge at the moment, there is no evidence of sabotage.

Senator **Leahy**. The Sendero Luminoso guerrillas are in full force in the area in Peru where the DEA agents are operating. I think about 10,000 people have died down there in the past 8 years in civil war. Are we about to get ourselves in a shooting war down there?

Mr. **Hoobler**. This was the reference I made at the outset of my statement; this is the precise reason the Ambassador called a stop to operations. It is true we have taken some fire and we are very concerned about it.

Senator **Leahy**. As I recall your statement said you think by the end of the summer it may be possible to operate there?

Mr. **Hoobler**. That is our objective—to have the operations base, Santa Lucia, completed, to have people trained, and perimeter security in place.

Senator **Leahy**. Do you think——

Mr. **Hoobler**. It will still be dangerous, however.

Senator **Leahy**. I understand. And I do not want to suggest otherwise, because you have an awful lot of U.S. agents who are down there risking their lives every day. I am well aware of that. You have—well, keep me posted on whether that situation——

Mr. **Hoobler**. Yes, sir.

Senator **Leahy** [continuing]. Whether that changes. Because obviously, it is not safe to go on, and then we have a whole new policy consideration here.

MANAGEMENT OF INM AIRCRAFT

Am I right that you have 54 aircraft for eradication, interdiction, and logistical support?

Mr. **Hoobler**. We had 54 until we lost the Cessna 2 weeks ago; 53 today.

Senator LEAHY. How is the fleet managed? Who does that?

Mr. HOOBLER. The Bureau of International Narcotics has a contract with a private firm named Corporate Jets. This firm provides us with maintenance, spare parts, technical support, pilots, and maintenance personnel.

Senator LEAHY. The reason I ask is the House committee said that the fleet has not been rationally planned or deployed, but instead managed on an ad-hoc basis. Do you agree with the House on that?

Mr. HOOBLER. I would take strong exception to that charge, Senator.

Senator LEAHY. That is why I thought I would ask you, to give you a chance. How would you respond?

Mr. HOOBLER. Well, I would respond by saying that before we moved to the employment of Corporate Jets, the Bureau itself wrote a formal air strategy which we have followed as a general framework. We did a competitive bid for this contractor. All contracts have problems, as we know, but we have been satisfied with this particular contract to date. So I have no idea what the House is referring to in terms of specifics.

USE OF SPECIAL FORCES IN DRUG WAR

Senator LEAHY. Director Bennett has suggested that special operations forces be used to fight drugs in Latin America. Now, some of the Latin governments are not eagerly embracing this idea. They probably have a few cynics that think that the United States might actually come down and try to take over their country or influence their government or use the military in there. Where they would get that idea, of course, none of us know.

But the DEA Administrator, Mr. Lawn, said this would cause more problems than it would solve. What do you think about that?

Mr. HOOBLER. I would agree with Administrator Lawn.

Senator LEAHY. I do, too. What does DOD think about this? Have you talked to them at all?

Mr. HOOBLER. Well, yes, I have liaison with DOD every day, as a matter of fact. I think their attitude simply is that it is not in their mission. I believe they feel very comfortable with the technical support relationship they have with the Department, and we are quite grateful for it. They have done an outstanding job sending training teams to Latin America, providing us with helicopters out of their boneyard, et cetera.

Senator LEAHY. Have we had any governments that have asked us to send down military forces specifically as military forces for narcotics control?

Mr. HOOBLER. Not since Operation Blast Furnace in Bolivia in 1986.

Senator LEAHY. When was that?

Mr. HOOBLER. July 1986.

Senator LEAHY. Oh, yes, I remember that one. What was the general feeling on that? Was that considered successful or did the plans go back to the drawing boards?

Mr. HOOBLER. Well, I suppose it depends on how you measure success. Did we arrest anyone? The answer is no. Did production operations stop? Yes; they did. Did the price of coca drop? Yes; it did, temporarily.

Senator **Leahy**. Would you do it again?

Mr. **Hoobler**. Well, it would not be my decision, obviously, but I would think that the administration would have to think long and hard on that idea.

Senator **Leahy**. Why?

Mr. **Hoobler**. Well, if you are looking for a sustained reduction in coca production, that type of high-visibility DOD operation is not going to result in a permanent resolution. At best, it is a temporary solution to a very difficult problem.

REAL PROBLEMS TO SOLVE

Senator **Leahy**. You know, I look at the numbers and I just do not, well, I will wait and see what the recommendations are in September. But, again, while I might sound critical, I want you to know that I understand some of the realisms of this problem.

In Colombia, during the past 4 years, drug traffickers have killed an attorney general, a minister of justice, 50 judges, a dozen journalists, more than 400 police and military personnel. People who speak out against them end up on a death list. And then you have cartels, they want to recruit pilots to transport cocaine at $5,000 per kilo. Even a relatively small twin-engine plane can carry 300 kilos. That is $1.5 million a flight.

It is not like going after bank robbers who might have $20,000 to hide out on in the next 4 months. I mean, you must have to constantly look over your shoulder just wondering who is getting paid by whom and why and how much and, if you have your own agents, whether they are going to get shot by somebody who is supposed to be an ally because they are getting paid off. Is that not the reality?

Mr. **Hoobler**. It is definitely a reality, and I would say that, at the moment, all the incentives are on their side.

EXTRADITION

Senator **Leahy**. We cannot extradite out of Colombia as a practical effect, can we?

Mr. **Hoobler**. Excuse me, Senator?

Senator **Leahy**. We are unable to extradite people out of Colombia, for example.

Mr. **Hoobler**. At the moment, we cannot.

Senator **Leahy**. Although, if we could, that would be helpful, would it not?

Mr. **Hoobler**. That would be helpful. Yes; it would.

LINKS TO TERRORISM

Senator **Leahy**. How about drug traffickers and terrorists? Is there a link there?

Mr. **Hoobler**. Well, there are reports of marriages of convenience, if you will, between terrorists and narcotraffickers. Whether there is a formal alliance is a matter of opinion.

ERADICATION

Senator Leahy. Your March 1989 strategy report says this year's brightest news comes from Peru, where you destroyed a lot more cocaine last year than in 1987, that is, 5,100 hectares compared to 3,550. But 1 million pounds of cocaine are still expected to be produced there this year, are they not?

Mr. Hoobler. That is correct.

Senator Leahy. That is twice last year.

Mr. Hoobler. One would have to say that 5,000 hectares is a relative success.

Senator Leahy. Relative to?

Mr. Hoobler. Relative to what they did the year before.

Senator Leahy. Compared to 3,550. But, the production is still about double a couple of years ago, a net increase of around 6,000 hectares after eradication.

Mr. Hoobler. It is about 6,000.

Senator Leahy. You spent about 60 percent of your funds on eradication. What other kind of activities are being—I mean, the only reason I ask this question is because the eradication does not seem to really do anything as a practical effect. I realize they could eradicate a particular area, but it seems that people just move to a different area.

If you have extraordinarily poor peasants who are able to eke out a living by growing this crop, and really no other alternative, or at least they do not see it. I mean, maybe there are, but the realities are that they see they either grow this and make a little bit of money and live, or nothing. Are there any steps being made or is it just impossible to work with the host countries to find alternatives for them? Cash crops, crops with which they can get money within their own country or outside their own country.

Mr. Hoobler. This essentially is the concept which I was addressing early on. One point of correction, however, before I elaborate. We spent about 41 percent of our budget on crop control and eradication. About 37 percent on enforcement assistance and interdiction. That gives you a feel for what the split really is.

COCA AS A CASH CROP

I think you are absolutely right. We have to, and I am sure the administration will, look at what are some positive incentives for these people. There is a variable, however. Production, for instance, in Bolivia is focused mainly in the area known as the Chaparre. This area was not originally a crop-producing region.

The people who are working the Chaparre for the production of coca are not long-time farmers in the area. They are people who have left other parts of the country and moved to Chaparre to produce coca, which is about the only thing, at the moment, which will grow there. So there are some variables when we talk about this problem.

It is true that, in the Upper Huallaga Valley, there really are very few crop alternatives at the moment. I think what we have to do, as a country, is face the fact that some form of economic and development assistance is going to be necessary, or we are just not going to win this battle.

Senator Leahy. There is not any—at least I am not aware of any—money in the foreign aid budget asking for that.

Mr. Hoobler. I do not believe the former administration put anything forward, and I do not believe that President Bush has amended the budget at this juncture. I believe the reason is that he wanted a full review.

ENVIRONMENTAL IMPACT OF ERADICATION

Senator Leahy. I understand. If you spray herbicides, and that is the way to do a very fast covering of a whole large area, that is one major way of eradication, is it not?

Mr. Hoobler. I would say it would be the most cost-effective way——

Senator Leahy. And the safest.

Mr. Hoobler [continuing]. And the safest way.

Senator Leahy. What about the environmental impact of it? Think about the debate over the herbicide spike, where Eli Lilly, which makes it, said they will not even sell it to the State Department because they have not tested it in a tropical environment or wet areas. Is that true?

Mr. Hoobler. At the moment, Eli Lilly will not sell tebuthiuron or spike to the U.S. Government; that is correct. I think it is important, on this issue, to understand that the U.S. Government is not about to use any herbicide that is not tested to be safe and effective.

And that is why the Peruvian Government has been conducting tests in their particular environment. Those tests have been ongoing now for well over 1 year. We did an aerial test in March; the final results of that test have yet to come in, but we have done several soil samples. We are going to follow EPA standards, even though the application would be in a foreign environment.

Senator Leahy. When I was going through my material to prepare for this hearing, I noticed that we had asked several months ago for copies of a report on the testing of spike in Peru. That has not come—have we received any of that yet?

Mr. Hoobler. No; we do not have a formal report as yet. The soil samples are still being evaluated. I am sure when it is produced, we would not have any problem providing it for the record.

Senator Leahy. How long is that going to take?

Mr. Hoobler. Well, at the moment, they are taking soil samples at 3, 6, 12, 24 week, et cetera intervals. So, theoretically, the tests would be fully completed in 2 years. We will have some preliminary results long before then, and we will certainly provide them to the committee.

Senator Leahy. Do you have any preliminary results yet?

Mr. Hoobler. We have no results as yet.

Senator Leahy. OK.

Mr. Hoobler. We have some field observations, but we do not have any scientific results as yet. We are looking at such things as runoff, the most effective herbicide, the impact on the environment, et cetera. For these scientific questions, we have no results at the moment.

HEROIN IN PAKISTAN

Senator **Leahy**. In Pakistan in 1980, there were virtually no heroin addicts. In 1985, there were about 300,000. In 1986, that doubled. Is that heroin coming from Afghanistan or is that indigenous to Pakistan?

Mr. **Hoobler**. It is both Pakistani and Afghanistani opium.

Senator **Leahy**. Pakistan says it plans to eliminate opium production by 1990. Is that possible? I suppose anything is possible.

Mr. **Hoobler**. Anything is possible.

Senator **Leahy**. Is that probable?

Mr. **Hoobler**. I would say it probably will only happen if the Pakistani Government decides to use aerial spraying in a much broader way than it has to date.

CLOSING STATEMENT

Senator **Leahy**. I have a few other questions for the record, and I apologize that others are not here today, but, because we have the appropriations bill on the floor and these are all, by definition, members of the Appropriations Committee, everybody has to manage parts of the bill over there.

Would you like to add something? I sort of jumped in and did not give you a chance to give an opening statement. That will be part of the record, and only because I actually do have to back to the floor, and you have been very good to answer the questions. Do you have some observations or anything additional you would like to add to the questions asked here?

Mr. **Hoobler**. No, Senator; I think we covered most of our concerns in the questioning, as well as in the formal statement.

Senator **Leahy**. Understand that all of us here want the United States, and the Federal, State, and local governments to succeed in getting rid of the scourge of drugs. But no matter what we do, it is going to cost money. I mean, some have this Pollyannic wish that, if you just simply print "Just Say No" on grocery bags, that that will take care of the drug problem. The irony is that you see some of those same grocery bags being used to transport the drugs or the money from it.

It is going to require so many different things. We will have to help the economy of some of these producing countries, spend money on our education system here in the United States, and increase funding for law enforcement, prosecutors, judges, and prisons. I get letters from people that say, well, just increase the penalties. Fine. But if you cannot catch the person, and then if you do catch them, if you cannot prosecute them because there are no courts available, that does not help at all.

All of this will cost money. When somebody says that they are willing to go to drug rehabilitation, they are told, well, come back in 9 months, we will have room for you. If they could stay off drugs for the 9 months, they would not need the rehabilitation system anyway.

You should suggest this to the administration, and when I talk with the President about this, I will be suggesting the same thing. You should suggest in that review being done by Dr. Bennett and others, they ought to be very, very honest and realistic and say, look, this is what is really needed and this is what it is going to cost. Then the determination can be made if we want to spend the money or not.

I suspect that the average American, if told that they could have what would really be a fraction of 1 percent increase in their taxes, but have it earmarked just for a realistic drug war plan, this country would overwhelmingly support that, on this issue—most other issues, probably not, but on this issue, yes.

So I would hope that nobody would pull back just because of the cost. Say what it would be if it was a real program and how much it costs. Then if we cannot afford it, fine; then start the scaling back. There are a lot of people here, Republicans and Democrats alike, who want to know what kind of program would really work and then we will debate whether we can afford it.

I rather suspect, as a nation, we cannot afford not to. I am very, very concerned. As a parent that has raised three children, although we have been fortunate because up to now Vermont has stayed out of the mainstream of a lot of these drug problems. But now those children have gotten to the age where they will start getting married and probably having children of their own, and I see my own State of Vermont being faced with problems just like every other rural area.

ADDITIONAL COMMITTEE QUESTIONS

You know and I know we can walk three blocks from here, we can walk one block from here, and some would say we could walk in parts of this building and see a drug problem. And, as a nation, we cannot afford that.

There will be some additional questions which we will submit to you for your response. Thank you.

Mr. HOOBLER. Thank you, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

WAR ON DRUGS

SENATOR LEAHY: I assume you saw this article in the Washington Post last week (copy attached)--"U.S. Suffering Setbacks in Latin Drug Offensive." Here are some of things it says:

"DEA agents in the world's prime coca grown region in Peru have been instructed to return to Lima every night for their own safety. Maoist guerrillas aligned with drug traffickers have gunned down 10 policemen in the area this month."

"The escalating violence in Peru is the most dramatic example of what many believe is a near breakdown of US antidrug policy throughout Latin America."

"According to new government estimates, coca production in Latin America has soared to unprecedented levels, enough to produce more than 1 million pounds of cocaine this year, or nearly twice that during the mid-1980's. Colombian traffickers have begun plantings in Amazon jungles of Brazil that are virtually beyond detection. US-financed programs to manually uproot the coca crop have slowed in Bolivia and come to a halt in Peru."

The article goes on to describe a situation that is in total disarray. Some say it's pointless to try to deal with this problem by cutting off the supply. The way things are going it's pretty hard to disagree with that. Does this article tell it like it is?

DR. HOOBLER: We do not agree that the situation is in total disarray, nor is it pointless to try cutting off supplies. Any effective strategy to reduce drug abuse in the United States must include actions to reduce availability--at the source, in transit, and within our country. We must be realistic about the dimensions of this challenge: there is enough coca is under cultivation in the Andes to produce 200-400 metric tons of cocaine, or 440,000 to 880,000 pounds, if all of it were actually converted from leaf to cocaine. Actual production of cocaine is believed to be well below that potential production level, and we estimate that 70-100 metric tons are consumed in the United States.

Eradication efforts in Peru have been halted since Febuary 1989 due to violent attacks on workers and the need to improve security for both Peruvian and U.S. personnel and their equipment. Base improvements are under way, and, when they are completed, we will become operational again. We are also working hard on an inter-agency basis to develop a regional control plan for the Andes.

SENATOR LEAHY: According to a February 1989 House Foreign Affairs Committee report on our narcotics programs in Peru, Bolivia, Colombia and Mexico, despite sporadic efforts to combat the drug trade, these countries are "largely unwilling or unable to seriously engage in anti-narcotics efforts. The best the U.S. can probably hope for is that they continue to permit U.S.-sponsored activities." Do you agree?

The report goes on to say that "given the limitations of host governments, all meaningful antinarcotics efforts have been and will for the conceivable future be conceived, financed, and implemented or supervised by the United States."

In your statement you say INM "strategy is based on encouraging and, where necessary, assisting countries to meet their responsibilities for reducing cultivation, production and trafficking of narcotics." The House Committee says these countries either won't do it or can't do it. If that's true, don't you seriously understate the US role if we're going to see real progress?

DR. HOOBLER: You are referring to a trip report by two staff members of the House Committee on Foreign Affairs. We have discussed this report at length in hearings with Committee Members, some of whom took critical exception in writing to its findings. The conclusions you have reached from the report about the political will of South American governments are, with all due respect, too generalized. There is indeed a significant level of effort being exerted by all of the affected governments. This is especially true of Colombia which has committed both its military and national police. True, we believe all of these governments must do more, but, unfortunately, our collective efforts simply are not sufficient. We believe the job can be done, but it will require a comprehensive, long-term strategy and the requisite resources to support it.

SENATOR LEAHY: That leaves it to the United States. But the US Attorney who indicted General Noriega testifed before Senator Kerry's Subcommittee. He said the Administration had prevented him from prosecuting some major drug kingpins, and that he'd give the State Department "an F for their handling of the war on drugs." He finally gave up and returned to private practice.

Senator Kerry found several other instances where State Department officals intervened to stop law enforcement operations aimed at drug kingpins. Under what circumstances and for what reasons does the State Department decide to block investigations or prosecutions of drug traffickers?

DR. HOOBLER: To my knowledge, the State Department has not stopped ex-U.S. Attorney Gregorie or any other U.S. Attorney from prosecuting major drug kingpins. The only instance that I am aware of concerned a very poorly conceived "sting" operation which some U.S. law enforcement agencies wanted to conduct in the Bahamas. From all accounts of those who participated in the decision to stop this plan before it could be executed, the decision spared the U.S. Government from a major embarrassment and probable charges of entrapment. The State Department does not "decide to block investigations or prosecutions." We are consulted by Justice when an investigation concerns heads of government, other senior foreign officials, or major traffickers. If a law enforcement action could compromise other U.S. Government activities, we would ensure that Justice or other departments were advised of the planned action and its potential consequences. We share the interest of other U.S. Government agencies in having drug criminals arrested and prosecuted. We would be most likely to intervene; that is, to
urge that an action be halted, delayed, or reviewed if we thought the action was so poorly planned or ill-timed that it was likely to fail.

SENATOR LEAHY: How much would it really cost to significantly stem the flow of drugs--like your goal of reducing cocaine imports by 50 percent by 1993?

DR. HOOBLER: It would be difficult to put a dollar figure on the costs required. Beyond the actual costs of supporting eradication and interdiction programs abroad, the success and costs associated with this program are dependent upon the success or failures of the U.S. Government's demand reduction program, the political stability of the governments we deal with on the narcotics issue, and the economic redevelopment that may be required to guarantee a permanent reduction of coca cultivation.

SENATOR LEAHY: You say in your statement that "interdiction and eradication efforts have until now caused only temporary declines" in production. Your strategy is "therefore predicated on simultaneously controlling cultivation and production in all key geographic regions." Are you saying you can do this for $115 million for the whole world?

DR. HOOBLER: The strategy applies primarily to the Andean region where there is an overwhelming coca cultivation problem. We are already putting about 70% of our budget into this region, reflecting the priority of narcotics control in the Andes.

SENATOR LEAHY: Since 1985 we have doubled INM's budget, but narcotics production has risen almost as fast. If you had twice the funds--$230 million rather than $115 million next year, what would you do with it? Would narcotics production continue to rise?

DR. HOOBLER: Unless the Congress is prepared to fund sufficient levels of economic assistance to backfill the loss of foreign exchange occasioned by increased eradication and interdiction initiatives, I seriously doubt that we could effectively outlay much more than has been appropriated by the Congress. The answer to controlling production is, in my professional judgment, to create a performance-based, economic assistance fund for use by the Governments of Peru and Bolivia. Ideally, this fund should be a multilateral initiative of all the consumer nations. In short, without such an incentive, it is doubtful that we will make much more progress in controlling the cultivation and production of cocaine in the Andes.

SENATOR LEAHY: I'm told the "Sendero Luminoso" guerrillas are in full force in the area in Peru where the DEA agents are operating, and they are in cahoots with the drug traffickers. Over 10,000 people have died in that civil war in the past eight years. The DEA's "Operation Snowcap" will apparently include increasing the number of agents and helicopters and building barracks.

What are we getting ourselves into down there? Do we really want to be sending DEA agents into a war zone? What amount of risk are we prepared to expose them to, and what amount of support are we prepared to give them? What is our long-term strategy and commitment there?

DR. HOOBLER: First of all, operation Snow Cap is a joint initiative, i.e., DEA supplies the agent manpower and State provides the logistics like airlift and housing support for participants. While the Upper Huallaga Valley, where the majority of our assistance is currently focused, is a dangerous area, it is also the most concentrated narcotics processing and cultivation area geographically. Every effort, therefore, is being made to ensure that American and Peruvian personnel involved in this program are well-trained and equipped with appropriate security measures. As you know, Senator, the Congress has mandated that the new "Drug Czar" rethink current narcotics control policy. I believe his proposed strategy for dealing with this difficult problem is due on the Hill in early September.

SPECIAL FORCES

SENATOR LEAHY: Director Bennett has suggested that Special Operations Forces be used to fight drugs in Latin America. Not surprisingly, the Latin American governments haven't reacted too favorably to this idea. According to DEA Administrator Lawn, this would cause more problems that it would solve. Is the Administration seriously considering it? If so, what is being considered--who would be used, where, for what purposes, at what cost, and what would be the reaction of the Latin American public to US troops there? What does the Department of Defense think of this idea?

DR. HOOBLER: This is one of many proposals that have been suggested to address the narcotics control situation in Latin America. As it does not have the support of any Latin American government, I doubt very much whether this proposal will ever see the light of day. I obviously cannot speak for DOD, but I suspect that policy officials in the Pentagon would be against the deployment of Special Forces without a Presidentally-directed change in mission.

SENATOR LEAHY: Your statement says "when invited by host governments" US military forces can and have participated in narcotics control. Which governments have requested US military forces for this purpose? Where have US forces been deployed for this purpose and what were the results? Were those results long-lasting, or only temporary? Where do you anticipate sending US forces to fight drugs in the foreseeable future?

DR. HOOBLER: There are no plans to use U.S. military forces to "fight drugs" in the sense of deploying operational combat forces to engage hostile forces. As you may recall, the Government of Bolivia requested U.S. military assistance in 1986, and assistance in the form of helicopters and crews was provided under the authority of the Posse Comitatus act, as amended. This operation was called "Operation Blast Furnace". Subsequently, Bolivia has only requested specialized training for its paramilitary narcotics police, and Military Training Teams from the U.S. Special Forces have provided such training. We also provide narcotics-related training through the International Military Education and Training program to several dozen countries.

INTERNATIONAL NARCOTICS COORDINATION

SENATOR LEAHY: The House Foreign Affairs Committee report says the "DEA is being thrust into essentially a paramilitary role for which it is ill-equipped; INM is operating an air wing for which it has no expertise; DOD's role remains murky. Eradication and interdiction efforts in-country are coordinated on an ad hoc basis, while AID remains an unwilling or largely disinterested partner."

According to the House Committee the aircraft fleet "has not been rationally planned or deployed but instead managed on an ad hoc basis. How is the fleet managed? Is DOD involved? What are your long-term plans--do you plan to expand further, in which countries, and who coordinates how and when they are used?

DR HOOBLER: The following information on INM's Air Wing will give you a better understanding of the Airwing and its operation:

Configuration--The INM Air Wing consists of 53 aircraft. The fleet's configuration reflects our primary mission of aerial eradication and our secondary mission of aerial support to the interdiction of narcotics. Thirty-three aircraft are troop transport helicopters which support the manual eradication efforts and the interdiction mission against narcotics processing labs and traffickers. Thirty-five of the aircraft are helos; thirteen are fixed-wing aircraft used to carry out the aerial eradication mission, and the remaining five aircraft are cargo/utility craft which provide logistics support for the fleet. Three of the cargo aircraft and 26 helos were obtained from surplus DOD stock.

Planning--INM began planning for the Air Wing during 1984. At that time, we bought and modified an aircraft that would eradicate drug crops in challenging narcotics production/trafficking environments. The mission required aircraft which could operate at very high altitudes up to 10,000 feet, at extremely heavy gross weights of nearly 13,000 pounds, at speeds approaching 200 mph to avoid traffickers' ground fire in extremely confined mountaineous maneuvering areas, and at ranges of 150 statute miles. Successfull design and development of this aircraft was completed in 1986, and the last of the 13 eradication aircraft was delivered during January, 1989. In FY 1986, additional funding provided for a significant expansion of the Air Wing. INM was able to obtain and operate surplus DOD and cargo aircraft in support of spray and interdiction mission at remote sites. An Air Wing strategy was prepared in early 1987 and a comprehensive planning conference was convened at Ft. McNair; consequently, the Assistant Secretary decided that the Air Wing would be deployed as a regional resource available for multiple operations throughout Latin America. Our priority targets became cocaine, heroin and marijuana, respectively.

Creation of the Air Wing enabled our Ambassadors to press the drug suppression issue with foreign governments, knowing that these assets were available. Since the Air Wing has become fully operational, numerous narcotics control programs have been initiated throughout the drug producing countries of Latin America. Current policies and program priorities are presently under review by the Administration, and revised long-term plans will be announced in September.

Deployment--Embassies in the drug producing countries are responsible for developing drug suppression programs in their respective countries and notifying INM when host governments have agreed to accept U.S. Government program assistance. Upon receipt of such notice, INM alerts the aviation contractor at the Florida main base for deployment. After schedules are established and operations officers sent to the country for advance preparation, a mix of aircraft appropriate to the given mission is deployed. Normally, logistics aircraft are initially sent to assist in provisioning for the forward operations bases. If there are competing requirements for Air Wing assets, the Assistant Secretary establishes the deployment priority.

Management - Program oversight and general management of the Air Wing is provided by INM in Washington. To assist INM, DOD has provided several field officers, and INM has hired aviation technicians to supplement INM staff. DOD will also be providing additional staff officers in the near term. Management of operations, maintenance, safety, logistics, and training programs will be divided between Washington and the main base at Florida. While oversight is provided by

Washington, most daily supervision and management of Air Wing support is carried out in the field.

DRUG TRAFFICKERS - EXTRADITION

SENATOR LEAHY: A January 1989 Washington Post article says "talk of extraditing drug traffickers--once the principal goal of US law enforcement officials--has vanished" in Colombia. "Barely 18 months ago, the Colombia Supreme Court, amid threats and intimidation, effectively invalidated the US Colombia extradition treaty." Is that true? How cooperative are Colombia officials in responding to US extradition requests?

DR. HOOBLER: While the Colombian Government continues to recognize its obligations under the 1979 Bilateral Extradition Treaty, it has been unable to execute its obligations since the Colombian courts struck down legislation for implementing the treaty. Unfortunately, the Colombian Government has been unable to establish a new legal basis for implementing the treaty because of an unfavorable political climate. The U.S. Government has no pending requests for extradition of Colombian nationals.

DRUG TRAFFICKERS AND TERRORISM

SENATOR LEAHY: In his Subcommittee hearings on the international drug trade, Senator Kerry found direct links between drug traffickers and terrorists. Does the Administration gather information on those relationships? What information do you have?

DR. HOOBLER: The U.S. State Department and other interested agencies collect information separately on narcotics trafficking and terrorism, and we do cross-match much of this intelligence to determine whether linkages exist. Few terrorists groups per se are involved in trafficking; that is, groups that are commonly defined as political terrorists. Those that are involved, such as the Sendero Luminoso in Peru, are usually motivated by a political agenda, like driving the U.S. Government out of the Upper Huallaga Valley. Acquiring commodities in trade, like guns, or the cash to buy guns, is another motivation. More commonly, we encounter political insurgent groups such as the Burmese Communist Party, the M-19 and FARC in Colombia, or warlord armies like the Shan United Army in Southeast Asia. These groups, however, derive their principal income from the narcotics trade. The Asian groups have largely foregone political activity in favor of full-time involvement in drugs.

BOLIVIA

SENATOR LEAHY: Bolivia is the second largest coca producer after Peru. Coca production there increased by 20 percent in 1988, although last year at this time you said "coca eradication in Bolivia began in earnest in September 1987." In your Strategy Report you mention that the new Bolivia law outlawing coca cultivation also outlaws eradication with herbicides.

If you are correct that a maximum of 5,000 hectares will be eradicated voluntarily this year, that leaves 50,000 hectares compared to 34,000 hectares in 1985. How can we even pretend to be dealing with this problem at that rate? Are you still saying you are going to eliminate half the coca plants in Latin America by 1993?

DR. HOOBLER: The Government of Bolivia has been working with us to reduce the acreage under coca cultivation, an extremely difficult task in an election year. While the involuntary eradication of coca has been recently postponed by the Government of Bolivia, we hope that the new President who will be chosen during the coming month will continue to support the eradication program.

SENATOR LEAHY: I've read about the debate about using the herbicide "Spike." According to a number of articles, the producer of the chemical (Eli Lilly) hasn't tested it in tropical environments, and the EPA has warned against its use in wet areas. Eli Lilly says it won't sell Spike to the State Department.

Why won't Eli Lilly sell it to you? Has Spike been aerially tested in Peru, and if so, when, in what quantities, and with what results? Do we know it's long-term health effects--on humans, wildlife and food crops, after aerial spraying in the tropics? If Eli Lilly won't sell Spike, what other chemicals are you planning to use in Peru? Have they been tested there?

DR. HOOBLER: There has been a great deal of misinformation about Spike, and I welcome the opportunity to set the record straight. The U.S. Government has been working with the Government of Peru to test Spike and other similar herbicides in a tropical environment. The goal is to assess their respective effectiveness and their environmental consequences. Data collected from the March 17 aerial test site in the Upper Huallaga Valley indicate that Spike kills coca; moreover, it allows other vegetation to flourish. Spike exhibits far less soil persistence in a tropical environment than in the arid U.S. environments where it is used for brush control. While it is true that the product is not registered for use in a tropical environment, the EPA, as far as I know, has not warned against Spike's use in a wet environment.

In May 1988, the Eli Lilly Company publicly stated that they did not want to participate in the coca eradication program in Peru and would not sell the herbicide to the Department of State. They gave no reasons for their decision beyond "policy and practical considerations," which we interpret as a combination of economic and security concerns. The Eli Lilly Company never once stated that its product was not safe, and it is still widely available in the United States and Latin America.

The long-term health consequences of an aerial eradication program in the tropics remain to be seen, but Senator, I can tell you that the Upper Huallaga Valley is fast becoming a toxic waste dump, created by the coca farmers and cocaine manufacturers who carelessly discard tons of chemicals into their rivers and soil. If U.S. environmentalists wish to express concern about damage to the environment of the Amazon Basin, I suggest they study the effects of the "slash and burn" tactics of the narco-traffickers and the impact of by-product run-off from the processing of cocaine.

SENATOR LEAHY: My staff asked you for a copy of the report on any tests done on Spike in Peru when they met with you several months ago and you promised to get it. Despite several phone calls they still haven't received it. Do you have it?

DR HOOBLER: Not yet. Soil and water sample testing is not yet completed; we estimate the process will take a year, including the evaluation by Peruvian Government experts. We do have our preliminary environmental review of tebuthiuron (spike) and the protocol for our field test in Peru which, I understand, has been made available to your staff. We can provide additional copies, if so desired.

PAKISTAN

SENATOR LEAHY: In 1980 the number of heroin addicts in Pakistan was virtually zero. By 1985 there were at least 300,000. By 1986 there were 660,000. Is that trend continuing? Is the heroin all from Afghanistan? I'm told that once the Afghan refugees start returning, opium poppy production will skyrocket. Is that true? What are we doing to prepare for that?

Pakistan is also a major producer, trafficker and refiner of opium and heroin. Between 1985 and 1987, opium production doubled. The government of Pakistan says it plans to eliminate opium production by 1990. Is that remotely possible?

DR. HOOBLER: The trend to increased heroin abuse in Pakistan is continuing with some estimates now as high as one million addicts. Opium production in Pakistan has unfortunately increased to 205 metric tons for the past two growing seasons, and this increased production is driven to a great extent by the country's growing heroin addiction population. Some estimate that Pakistan has become a net importer of opium, but the data, at this juncture, is somewhat soft.

The new government of Prime Minister Bhutto continues to express a strong commitment to narcotics control, but it also recognizes that any hopes for the total elimination of poppy production by 1990, as hoped for a few years ago, is not a realistic goal. Expansion of the poppy ban to the primary growing areas of Bajaur and Mohmand, the increasing success of voluntary eradication efforts, and a reorganization of the anti-narcotics bureaucracy in Pakistan are all designed to bring significant reductions in poppy production by 1993.

As far as the situation in Afghanistan is concerned, there is a widely held belief that the eventual return of several million refugees to Afghanistan will result in a sizeable increase in opium production, as resettled farmers attempt to reestablish themselves. This view is held not only among interested government and private circles in the United States but also among similar circles in Western Europe, the U.N., and other multilateral fora. We believe, therefore, that U.S. Government policy to provide political support, humanitarian assistance, development assistance, narcotics control assistance, etc., must be contingent upon Afghan authorities adopting a strong anti-narcotics policy to the limits of their capabilities. In addition, we must do all that we can to influence the U.N. and its donor countries to take a similar position.

Finally, the U.S. Government has appointed a Special Envoy to work with Afghan leaders and pursuade them to reaffirm adherence to international narcotics conventions so we will be able to provide them with narcotics enforcement assistance and public awareness support.

BURMA

SENATOR LEAHY: Opium worth $170 in Burma is said to yield $2 million in American and European cities after processing. Eighty percent of it is exported through Thailand. The Thai Government has destroyed most of Thailand's opium crop, but I'm told that because of corruption and ambivalence it allows the traffic from Burma to go on. Is this true? What has Thailand done to stop opium traffic from Burma--what fraction is being stopped, and what has our program there to support Thai efforts to stop this traffic accomplished?

DR. HOOBLER: It is true that the majority of Burma's opium and refined opiate production still enters Thailand. Much of the illegal narcotics is consumed within its borders but some of this production leaves Thailand for overseas markets in Asia, Europe, and the United States. The problems of the corrupting influence of the drug trade in Asia, as well as in other areas of the world, are difficult to solve and continue to be addressed by drug enforcement officials in America and the world community. Corruption in Thailand has been characterized as being "endemic", at least at lower levels.

Thailand has not been "ambivalent" about the drug trade within its borders, and narcotics control is of major concern to the Government of Thailand. The massive opium and heroin abuse problems in Thailand, coupled with the country's desire to cooperate in anti-drug efforts, have ensured that the Thai Government supports programs in the law enforcement area. Although much still can be done, Thailand is working hard to target trafficking organizations. INM support has provided training of police and border patrol units tasked with an interdiction mission. We have also supported infrastructure developments which improve communication, help gather and use intelligence effectively, and target individuals and groups involved in drug smuggling.

The seizure of over 1000 kg. of heroin early last year and other enforcement actions have involved Thai authorities in cooperation with foreign law enforcement organizations such as the U.S. Drug Enforcement Administration. It is difficult to pinpoint the exact portion of Burmese opium/heroin production that has been seized in Thailand, but increases in production, the lack of control at the source, and the large seizures over the past three years provide drug control officials with cause for concern. In short, Thailand is now one of our few cooperating partners in the major heroin producing region of the world, and we must work together to bring this heroin trafficking under control.

QUESTION SUBMITTED BY SENATOR MARK O. HATFIELD

MEXICAN TAR HEROIN

SENATOR HATFIELD: The State of Oregon has been inundated with tar heroin from Mexico. The FBI has been working within Oregon to stem the flow of this drug into Oregon. Specifically, what is the State Department doing to halt the importation of Mexican tar heroin into the United States?

DR. HOOBLER: As long as black tar heroin continues to be produced in Mexico, some will inevitably find its way to the United States. The State Department's continues to support the Mexican narcotics control program which has improved markedly under the leadership of President Salinas. During the first half of 1989, the Mexicans seized 253 kilograms of opiates, 1,326 vehicles, 30 airplanes, and 2 boats. Six thousand persons were also arrested in the same period. In short, the Salinas Administration appears to be off to an excellent start in narcotics control and warrants some acknowledgement for its efforts to date.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will now stand in recess until 2:30 p.m., on Tuesday, June 6. At that time we will receive testimony from the Peace Corps, Export-Import Bank, Overseas Private Investment Corporation, African Development Foundation, and the Inter-American Foundation.

[Whereupon, at 3:50 p.m., Thursday, June 1, the subcommittee was recessed, to reconvene at 2:30 p.m., Tuesday, June 6.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, JUNE 6, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:40 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senator Leahy.

PEACE CORPS

STATEMENT OF PAUL D. COVERDELL, DIRECTOR

ACCOMPANIED BY DAVID SCOTTON, CHIEF OF STAFF

OPENING STATEMENT OF SENATOR LEAHY

Senator LEAHY. Good afternoon.

This afternoon the subcommittee is going to focus on the budget requests of five programs. Two of these, the Export-Import Bank and the Overseas Private Investment Corporation, are important elements in our Nation's battle to make a level playing field in international trade. The other three work with the poor and downtrodden around the world to promote grassroots development.

Of these—and interestingly enough, this hearing was tentatively scheduled weeks ago—three are programs that are really being affected by the recent events in China. It's obviously the Peace Corps, the Eximbank, and OPIC. So, we will want to know exactly what these agencies are doing in China now and whether there would be any adverse impact on these activities.

So that everybody will understand the schedule this afternoon, I will start with Mr. Paul Coverdell, the new Director of the Peace Corps, who was kind enough to join me the other day and give me an earlier briefing. The reason I want to start with Mr. Coverdell is that there is a lot of concern, obviously, about what is going to happen in China. Peace Corps volunteers are supposed to go there in 2 months, and we have to figure out what those plans are now in light of what is going on in China.

Then after Mr. Coverdell, we will turn to Mr. William Ryan, the acting president and chairman of the Export-Import Bank. He will testify on behalf of the bank. We know that Exim facilitates U.S. exports in a number of ways.

Similarly, the Overseas Private Investment Corporation assists the flow of U.S. capital and skills. OPIC will be represented at today's hearing by Mr. Robert Draggon, the vice president for finance.

After that, we will hear from Mr. Leonard Robinson, the president of the African Development Foundation.

And then we will hear from Ms. Deborah Szekely, the outgoing president of the Inter-American Foundation.

PREPARED STATEMENT OF SENATOR D'AMATO

I will leave the record open for other statements

[The statement follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO

Thank you, Mr. Chairman. Reviewing the statements of the witnesses testifying today, I am struck by how much these agencies are able to accomplish for so little.

For significantly less than the cost of making the movie "Ghostbusters II", this committee can provide development opportunities to the poorest in both Latin America and Africa through the auspices of the Inter-American and African Development Foundations. Scratch one B–2 bomber and you can fund the Export-Import Bank for the year.

Perhaps, there is a lesson in all this. The accomplishments of the Peace Corps, the Inter-American Foundation, the African Development Foundation, the Export-Import Bank, and the Overseas Private Investment Corporation are legion. Some support development at the grassroots level, others at the Government to Government level. All are marked by an operational leanness and an efficiency mandated by scarce funds. Some of our larger, more bloated bureaucracies might take note of the work of these little organizations. They are Davids in a world of Goliaths.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator **Leahy**. Mr. Coverdell, your statement, of course, will be part of the record. I appreciate the reference it makes to the increase in appropriation requests and the fact that it reflects the concern that we have regarding the 10,000 volunteer goal.

[The statement follows:]

STATEMENT OF PAUL D. COVERDELL

MR. CHAIRMAN, Members of the Committee: It is an honor to be with you this morning representing the Volunteers and staff as the new Director of the United States Peace Corps.

Although I have been at the agency but a few weeks, I can tell you without hesitation that I have been immensely impressed with the high level of dedication and commitment demonstrated by the staff and Volunteers of the Peace Corps. It is an agency of which all Americans can be very proud.

Since 1961 the United States Peace Corps' primary objective has been to promote world peace and friendship. During the past 28 years, over 130,000 Americans, both Volunteers and staff, have shared their skills with the peoples of the developing world. Peace Corps Volunteers come from all 50 states. The average age is 30, and almost ten percent are over 50 years of age. Fifty-two percent are women, ninety-three percent are college graduates, and eleven percent are married.

With nearly three decades of development assistance, the United States Peace Corps is a stable, respected institution in the international development community. We continue to adapt our programming and Volunteer skills requirements to meet the changing needs of the countries we serve, and host countries continue to increase the number of Volunteers they request (requests for Volunteers are expected to increase by 9,000 over the next five years). The ability to meet those requests will depend on the continuing support of the United States Peace Corps' growth mandate.

I am pleased to tell you that President Bush has requested a $10 million dollar increase for the agency over last year's appropriated level. This $163.6 million will support approximately 6,000 Volunteers in the field throughout the fiscal year and permit the agency to recruit about 3000 new Trainees.

In fiscal year 1990, we plan to have programs in 67 countries, including the Peoples' Republic of China. We are still hopeful of implementing the new China program this fall by placing our first education Volunteers in Sichuan Province.

This budget request will also allow the agency to launch some low cost initiatives and expand awareness of the Peace Corps to more Americans. We will launch a program to link every American Volunteer with a grammar school in the United States; and we will begin preparation for entry into a limited number of new countries during the next fiscal year.

MEETING THE CHALLENGES

The United States Peace Corps concentrates its grass roots development assistance in ten program areas that are designed to address major development gaps and, most importantly, locally-identified needs.

AGRICULTURE: Throughout the 1960's and 70's, the United States Peace Corps' programs centered largely around education needs, but in the 80's, responding to the increased awareness of global hunger, agriculture projects have surfaced as a major initiative, especially in Africa. Traditional agriculture systems in the developing world face tremendous population pressures to produce more food. More than 1,500 Volunteers are currently in the field addressing these needs through the Africa Food Systems Initiative, crop extension, soil science, agricultural economics research and animal husbandry projects. Volunteers are also working with host country counterparts to establish cooperatives and agriculture oriented youth development programs. There is also a special emphasis on small farmer assistance.

URBAN AND YOUTH DEVELOPMENT: Rapid population growth and unprecedented rates of urbanization are causing profound changes in the social and economic structures of developing countries. Urban populations will soon exceed rural ones, and these urban centers are attracting large numbers of abandoned, abused and runaway youths trying desperately to survive. In recognition of these trends, The United States Peace Corps has begun to incorporate urban needs into its programming. At present, Volunteers are involved in at least 15 urban-related programs around the world, helping to improve the living conditions of the unskilled, low-income, and young people residing in towns and cities.

ENVIRONMENT/NATURAL RESOURCES: In an effort to respond to the growing consciousness about, and devastation of, the world's environment, the agency has increased its emphasis on natural resource programs. Currently more than 560 Volunteers are participating in such projects in over 45 countries. These projects include agroforestry, environmental education, wildlife management, establishment and maintenance of national parks, soil conservation, introduction of fuel-efficient stoves, reforestation and nursery projects. The United States Peace Corps is also working actively to build networks with forestry and environmental organizations in the United States and overseas for resource training, recruitment of Volunteers and technical information.

This year's JFK Volunteers of the Year, recently honored here in Washington, all worked in the area of Environment and Natural Resources. Moni Slater, this year's recipient from Africa, is a Volunteer in Mauritania. She, for the last three years, has been primarily helping villagers control the devastation of roving sand dunes. By helping to plant trees, teaching the fundamentals of gardening, controlling locust infestation, and encouraging the villagers to see what can be done, Moni typifies environmental resource Volunteers.

HEALTH PROGRAMS: Annually over 450 health Volunteers help provide essential health services and training in 35 countries worldwide. Many of the Volunteers work in collaboration with private voluntary organizations, USAID, The World Health Organization and others to help promote the development of host countries' health infrastructures.

WATER AND SANITATION PROJECTS: Millions of people suffer from waterborne diseases each year. Many of these diseases, like the Guinea Worm, are easily eradicated by insuring that water supplies are free from contaminants. Over 400 Volunteers are working in 25 countries helping to provide safe, potable water to remote areas. In addition, Volunteers are helping to develop irrigation systems in arid regions.

ENERGY PROGRAMS: The need for fuel wood has striped many areas of vegetation causing devastating damage to the environment. Using appropriate technologies, approximately 300 Volunteers in 25 countries are helping to develop alternative energy sources and fuel-efficient cookstoves thus helping to preserve limited resources.

SMALL ENTERPRISE DEVELOPMENT PROGRAMS: Through this program, a 1987 redesign of several community development projects, over 2,600 Volunteers in villages and cities worldwide are now hard at work helping to promote and support local economic development through self-sustaining small-business activities. Host country requests for Volunteers in this program, as well as many others, are expected to increase at greater rates in the future.

FISHERIES: Teaching host country nationals to build, stock, and manage fish ponds has enabled many more people to improve their diets and earn extra income. 375 Volunteers working in 32 countries around the globe are involved in this program.

EDUCATION: Since 1961, over five million students have been taught by Peace Corps Volunteers. With emphasis on training teachers, teaching the deaf, training the unemployed and other nonformal educational activities for adults and out-of-school youth, education Volunteers continue to help fight illiteracy.

WOMEN IN DEVELOPMENT: Because women in the developing world provide three-fourths of the food and usually all of the child care, The United States Peace Corps works to ensure that women's issues are incorporated into programming in all our planning. Women in Development or WID programs have been expanded in 1988 with continued emphasis planned for the future.

These are the ten program areas through which the United States Peace Corps currently seeks to meet the needs determined by our 66 host countries. Because these needs are constantly changing, our ability to respond to the host country requests will continue to depend on the agency's ability to attract qualified Volunteers with a variety of skills, and to provide them with the financial and technical assistance they require.

COLLABORATION WITH OTHER DEVELOPMENT ORGANIZATIONS

The United States Peace Corps' programming and projects benefit from expanded collaboration with others in the development field. Only when The United States Peace Corps' programs complement the efforts of other international assistance organizations can the work of individual Volunteers be maximized. Growing collaboration with USAID has substantially increased the amount of technical support available to Volunteers.

Volunteers are also working collaboratively with staff from the World Bank, UNICEF, the World Health Organization (WHO), and U.S. agencies such as the Departments of State, Agriculture, and Commerce. In the private sector, we work collaboratively with private voluntary organizations such as, CARE, Catholic Relief Services, World Wildlife Fund, and Partners of the Americas as well as other bilateral donors such as West Germany, the United Kingdom, Sweden, Japan and Canada.

By the end of 1988, eight collaborative agreements had been signed with universities for master's degree programs which combine on-campus course work with Peace Corps Volunteer service. Additionally, Norwich University in Vermont has created an alternative to ROTC training for Peace Corps Volunteers. And an undergraduate internship program to place college students in overseas posts for a short term to assist staff and acquaint themselves with Volunteer projects has also been initiated.

ASSOCIATE VOLUNTEER PROGRAM

Over the past several years, The United States Peace Corps developed the Associate Volunteer program whereby Americans can serve for less than two years. Utilizing collaboration with universities and professional organizations and business, the agency has been able to supply highly skilled, yet difficult-to-recruit Volunteers to assist regular Volunteers by providing specific skills requested by host countries. For example, we have have begun providing dentists to Jamaica, teachers to Fiji and Ghana and through a recent agreement with American Veterinarian Association, we will provide veterinarians to Morocco and other countries with animal health care specialist shortages.

Preliminary evaluation indicates the short-term Volunteer programs are very successful in complimenting the regular Volunteers. Host country interest and requests continue to increase for these Volunteers.

PARTNERSHIP:AND THIRD GOAL ACTIVITIES

In support of the Volunteers, both two-year and Associate, the United States Peace Corps Partnership Program - our outreach to the private sector for Volunteer project support - has continually increased its revenues. Last year, the Partnership Program funded over $250,000 worth of Volunteer projects throughout the developing world. The Gifts-in-Kind office provided over $1.4 million worth of goods and services, including books and farming, office and medical equipment to Volunteers' projects overseas. The Partnership Program is but one of our Third Goal activities designed to educate Americans regarding our neighbors around the world.

In an effort to expand the Third Goal activities, the United States Peace Corps initiated several programs including Returned Volunteers who would interact with American school children across our nation spreading their knowledge about various peoples of the world. Expansion of this development education program to involve more Americans - beginning with a linkage of elementary schools with the work of our Volunteers - is an initiative that we will emphasize heavily in the future.

CONCLUSION

This testimony gives a brief description of the United States Peace Corps in 1989. During this fiscal year there will be approximately 6,000 Peace Corps Volunteers serving worldwide. New programs have begun; new country entries have been achieved, hopefully including China; and the agency is committed to continue building the strong foundation it needs to support the 10,000 Volunteer level mandated by Congress and approved by former President Reagan. The fiscal year 1990 budget request of the President will permit the agency to replace 3000 of the 3200 Volunteers completing their service next year. The agency's objective has and will continue to be to provide support to our Volunteers in the field. The agency's commitment is to make sure our Volunteers are safe and supported so that they can continue doing the the great work for which they are so much appreciated throughout the world.

Thank you.

PEACE CORPS' CHINA PROGRAM

Senator **Leahy**. I wonder if you might start by telling me what the situation is with the China program. How does that look today? You and I discussed this a few days ago. I think we shared a feeling of how great it would be to have this program work. How good it would be for our country; how good it would be for China. I think we share a common feeling that the more interaction you could have between countries, the better it is for understanding. But when you and I talked about it, the tanks were not rolling into Tiananmen Square. What is the situation today?

Mr. **Coverdell**. Mr. Chairman, first I want to say that it is a distinct honor to be with you today. I would be glad to respond to that question as directly as I can. I believe that probably all of us, in fact, all the world, have more questions than answers regarding the situation in China.

But as it relates to the Peace Corps, as you know, both countries signed a letter of agreement to inaugurate a Peace Corps mission to the Peoples' Republic of China in late August or early September 1989. Pursuant to that agreement, some 23 volunteers have been selected. Ultimately 20 of those were scheduled to go to China.

The training has been inaugurated. In fact, I just attended a ceremony this past week at American University as the training of these volunteers got underway.

Senator **Leahy**. This is training for the Chinese program?

Mr. **Coverdell**. That is correct, in preparation for their work in-country which will be a mission of teaching teachers English in Sichuan Province.

My view of the circumstances, as we know them today, is that we should continue and proceed with the training. We are not confronted with a safety issue until August—we have over 2 months. I think it would be a mistake to step back now because there is simply no way to predict what is going to take place in China. At the moment, we are proceeding with the training and watching very carefully the course of events in the Peoples' Republic of China. And we hope, as I am sure the rest of the world does, that it stabilizes in a favorable way.

That is the present situation with regard to the Peace Corps and its pending mission in China.

Senator **Leahy**. If you had to send them today, what would you do?

Mr. **Coverdell**. If I had to send the mission today——

Senator **Leahy**. Just as far as safety is concerned, not on the political issue.

Mr. **Coverdell**. I would delay the departure in the environment that we see now. And I am measuring the response of other agencies. The first priority for us would be the safety of the volunteers, and I think we would have to conclude that in this particular environment, there would be a safety question. And, therefore, that would preclude the volunteers' departure.

But if I were faced with that today, it would be a decision to delay. It would not be a terminating decision. I would again wait out the events to see if they could depart at a later date.

Senator LEAHY. Have you received any indication from the Chinese that this program may be delayed, this may be put on hold or anything else like that?

Mr. COVERDELL. We have not received any communique of any official nature from the Chinese Government regarding the program.

Senator LEAHY. So, basically the information you have today is what any of us would get if we turned on the news.

Mr. COVERDELL. Right. We have no information that is not available to anyone else, and we have the same questions in our minds as everyone else does.

Senator LEAHY. But as of today, there is no drawing back. You are going on the assumption that, come this fall, the volunteers would be sent on—where is it? To Sichuan Province?

Mr. COVERDELL. Sichuan, right.

Senator LEAHY. They would be sent on over.

Mr. COVERDELL. Yes, Senator; we are proceeding as if the agreements entered into between the two countries will be fulfilled.

INCLUDING PEACE CORP AS A SANCTION AGAINST CHINA

Senator LEAHY. We are having discussions regarding what sanctions the United States might initiate against the Peoples' Republic of China. The President—and I support him in this—has suspended a number of areas of military cooperation and arms sales with the Chinese on the basis that those same arms may be used by the Chinese Government to kill their own people. And I concur with him on that sanction.

The President has also disagreed with some who suggest that we recall our Ambassador, and I concur with him on that. After all, he needs the Ambassador there to report to him.

I have not heard arguments made regarding the Peace Corps, but some may argue—and I am thinking we have an appropriations bill on the floor which is always a lightening rod if anyone wants to add anything—that the Peace Corps be part of any sanctions, the withholding of this Peace Corps Program as a sanction toward China.

How would you feel about that? Suppose that came up as an option being either proposed by someone in the private sector, somebody in Congress, or elsewhere. How would you respond?

Mr. COVERDELL. I would object to a move to include the Peace Corps in sanctions against China and leverage the Peace Corps as a matter of policy between the two countries. I think that would violate the premise of the Peace Corps. Nothing of significance in terms of stabilization would be achieved by that. I think that the Peace Corps mission should proceed unless there is a risk that evidences itself to the actual safety of the volunteers.

Senator LEAHY. So, would it be safe to characterize that your feeling is that the decision to send the Peace Corps to China would be carried out contingent only on the question of safety of the volunteers involved?

Mr. COVERDELL. Yes, that properly characterizes it. If we were in an environment where we had open conflict in the country and there was some section of the country that was safe, that could raise a question as well. But I believe that your characterization properly reflects my view on it.

Senator **Leahy**. Well, I am pleased to hear that response. As I said, I concur with the President on the sanctions that he has proposed. I suspect there may be further sanctions depending upon what direction the policy takes, but I agree with you that the Peace Corps should not be part of that. If we can be assured of the safety—and I say that realizing we have had a lot of Peace Corps volunteers who face significant hazards just by the nature of the program—but if we can assure their safety in the sense that we normally think of it, I absolutely concur with you. They should go. When prepared, they should go notwithstanding the terrible, frightening and outrageous acts that we have seen the past few days.

Certainly, based on my own trips to China during the past decade, watching the evolution of things there, I have to feel that China and the rest of the world benefits from exposure to us and to other parts of the world. The Peace Corps certainly adds to that.

I have not heard anybody in the administration suggesting using Peace Corps as a sanction or weapon, but if anybody does raise that as an option, I hope, sir, that you will speak out very strongly against using it as a sanction. I can tell you right now you would certainly have my strong support on that. At this time, in many ways, the Peace Corps can be more important to China than it might even have been a few months ago.

Mr. **Coverdell**. Senator, I appreciate your support, and I have already framed my suggestion on this matter and have passed it along where appropriate. So, I have already spoken to it.

I might add that by precedence, we can look at many governments through the history of the Peace Corps where we have had volunteers in a country where circumstances were not necessarily to the liking of the United States or its policy. But we have always thought it important to continue with the mission of the Peace Corps, and I subscribe to that.

Senator **Leahy**. Well, I absolutely agree with you. You come to a subcommittee which has been a strong supporter of the Peace Corps. Members on both sides of the aisle thought your predecessor did a terrific job. We are very pleased that you are here and I think you will find that not only will you have the subcommittee on your side, you have the American people on your side too. The Peace Corps is an important program to most Americans.

Back home in Vermont, many of my friends are former Peace Corps members. My wife and I are godparents of the son of a former volunteer. My personal assistant, Ms. Joyal, who is indefatigable and able to handle virtually anything in my office got that experience, I believe, because she was in the Peace Corps. I have been very impressed with people I know from the Peace Corps, and I have been very impressed with what they have accomplished afterward.

So, keep in touch on this China issue. I hope for China's sake and for the Peace Corps' sake it works out.

10,000 VOLUNTEER GOAL

Congress has set a goal of a 10,000-volunteer Peace Corps. Right now you are up to about 6,000 volunteers. Is that correct?

Mr. **Coverdell**. If you count the actual volunteers and trainees in service, it would be approximately 6,000.

Senator **Leahy**. The budget request is $163.6 million for fiscal year 1990. Is that going to keep you on track for a 10,000-volunteer goal by 1992?

Mr. **Coverdell**. Senator, it will not.

Senator **Leahy**. How much would you need to get back on track?

Mr. **Coverdell**. If we use the growth plan, it would be a figure in the range of $172 million. That would deal with the consumption brought about by inflation, the maintenance of the infrastructure, and it would allow a growth in the range of 400 to 500 volunteers.

I believe the $163.6 million was intended to keep us at our current level. My review, which admittedly is somewhat limited because of my short tenure to date, suggests that two expenditures or two impacts on the budget, principally inflation, which I think will be greater than was originally projected, and the agreement with the U.S. State Department, FAAS, will consume virtually all of the $10 million. And, therefore, the agency would either have to reduce somewhat its input of new trainees to become volunteers—it might drop by some 200—or it would have to stretch its infrastructure, which I think would be a daredevil policy toward the future.

Senator **Leahy**. I realize all applicants that you receive aren't qualified, but how many qualified applicants do you expect to have to turn down this year because you did not have enough in the budget?

Mr. **Coverdell**. We will accept with this budget 3,000 new trainees, and I am going to anticipate the number of qualified applicants turned away to be in the range of another 3,000 to 4,000.

For fiscal year 1989, it's not quite that high. Qualified applicants would end up being about 5,750, 4,200 Americans will be invited, and the trainee input would be about 3,000. So, it's a significant number that are turned away, approximately 2,700 qualified Americans.

I think in concert with that, I must add that I just left a luncheon with Prime Minister Bhutto. And an experience that is recurring——

Senator **Leahy**. Both Mr. Newsom and I were invited to that luncheon. We wanted to be there, and I feel badly that we both had to turn it down. So, tell me what happened.

Mr. **Coverdell**. It was a very fine event. The Secretary was most laudatory of Pakistan and its charity in particular with reference to the refugees from Afghanistan.

The prime minister spoke to the growth of democracy in the world and its importance and basically alluded to the need for a broader base government in Afghanistan.

But the point that I was about to make—this seems to be somewhat of a recurring event—as I come through reception lines and am identified as the director of the U.S. Peace Corps, there is an immediate recognition. I am unable to just pass on down the line because I am always stopped. And then there is the request for the expansion of Peace Corps programs.

In this case we have only eight volunteers at present in Pakistan. I think we would like to see it moved to 30 in fiscal year 1990, and these volunteers are teaching English as a second language.

Prime Minister Bhutto made the point that the country was extremely interested in health assistance. I acknowledged it and moved forward, but she stopped me one more time.

The point I am making is not only are we dealing with the rejection of certain qualified volunteers, but we are also dealing with the rejection of seeking nations.

UNIVERSITY RECRUITING

Senator **Leahy**. You had mentioned that Norwich University offers an alternative to ROTC for Peace Corps volunteers. Has that been successful in recruiting volunteers? Are there any other military schools that are doing that?

Mr. **Coverdell**. No; that is the only program of its type that is currently in existence.

There are many universities that are involved with extending credit for Peace Corps service and/or a fellowship program that interlocks with the Peace Corps. And it is something that I would like to see further developed. There is a growing interest between the university academia and Peace Corps, but there is no other program such as the one at Norwich.

PEACE CORPS AND PHILIPPINES MULTILATERAL ASSISTANCE INITIATIVE

Senator **Leahy**. Last year we had asked Mrs. Ruppe whether the Peace Corps was included in the discussions concerning the multilateral assistance initiative for the Philippines. She said it was not. We both agreed that it should be. Do you know if the Peace Corps has had an opportunity to give input into these discussions?

Mr. **Coverdell**. Senator, it has not. I read that portion of the testimony from last year, and know that the Peace Corps did extend an inquiry, but it has not been responded to.

PEACE CORPS PROGRAMS IN UNSAFE COUNTRIES

Senator **Leahy**. We talked earlier about the safety of Peace Corps volunteers going to China. Do we have Peace Corps volunteers in Haiti?

Mr. **Coverdell**. Not now. We only have a skeleton staff in Haiti. The volunteers have been removed, and we continue to monitor the situation to see if it stabilizes to the point that we feel we can reenter it.

Senator **Leahy**. If it did, we could. There is an exception for the Peace Corps to some of the restrictions we have on assistance to Haiti, is there not?

Mr. **Coverdell**. That is correct.

Senator **Leahy**. What about in El Salvador, Colombia, and Peru? Do we have Peace Corps volunteers there?

Mr. **Coverdell**. In none of the countries you mentioned do we have Peace Corps volunteers.

Senator LEAHY. The reason I ask that is all the reports that I receive speak of very serious security problems in those areas.

Mr. COVERDELL. There are discussions, Senator, with Chile, Uruguay, and Bolivia, Bolivia perhaps being the most advanced discussion of the three.

Senator LEAHY. What about Mozambique?

Mr. COVERDELL. We do not.

Senator LEAHY. Is that because of the security problem?

Mr. SCOTTON. Yes, sir.

ASSOCIATE VOLUNTEER PROGRAM

Senator LEAHY. I wonder if you could tell me a little bit about the associate volunteer program. Apparently this is a way of injecting some specialized skills in the Corps for a short period of time, shorter than the normal 2 year volunteer time. Is that correct?

Mr. COVERDELL. That is correct. Senator, the associate volunteer program is now in its second year, I believe. It was designed to enable the Peace Corps to respond to the more specific skills that host countries are seeking. It has had a modest beginning and is still being reviewed. I think we anticipate placing some 60 associate volunteers in fiscal year 1990.

It is a more expensive program. There are questions among some as to the effect that it may or may not have on the 2 year commitment because these volunteers would serve less.

Senator LEAHY. If you want to get a veterinarian, for example, or a doctor or something, it might be worth it. For example, one of the things that I have been concerned with is getting prostheses to areas where you have people who have had legs blown off, or arms blown off, in fighting a civil war or whatever. We find that we are able to buy the prostheses, we can get the artificial arms or legs—there is plenty of money for that. Oftentimes what we can't do is get them fitted to the people who need them. There is nobody in the area trained to teach them how to put the leg on or how to put the arm on.

I realize this goes into a somewhat different program—one the subcommittee has been working on. But could the associate volunteer program include someone who knows how to do prothesis work, who would volunteer for 3 or 4 or 5 months to train local people to do follow-on; or could it include a veterinarian who could come in and show how to deal with a particular type of animal disease that affects that area; or surgical nurses who could train others? It might be worthwhile because you may be able to find somebody who will say, OK, I will leave my practice for 5 months, perhaps 6 months, but I can't leave for 2 years—no matter how motivated I am.

Mr. COVERDELL. Senator, I think you have described a laudable goal and I am confident that the two can be meshed together It is an issue I can now say, having now visited with some 400 volunteers personally in my short tenure, to which I think a proper balance can be brought.

One thought that I have had is that we would look at the associate volunteer as a technical support mechanism for the volunteer that has made the commitment to serve the 2 years. Just as we might send or forward tools in support of those volunteers, we could send a technical expert. I think the two concepts can be welded together. But they deserve both the goal that you have described, which is most important, but also the integrity of the Peace Corps systems itself. And I think they can be welded.

Senator **Leahy**. Senator Coverdell, as I said, I appreciate this testimony. Your full statement—and I apologize for not giving you a chance to give it—will be put in the record. This hearing will be somewhat truncated because the administration wants to meet with a number of us for a briefing on China. In just a little bit I will have to go to that.

Senator **Leahy**. Please keep me posted on your China program. I absolutely concur with you. I think it is important that it go ahead. I realize you have had to stretch your own resources to make that possible. I want to work closely with you, first, to make that program possible, and, second, to make it possible for you to be able to say yes to countries that ask you for more volunteers and not have to turn them down.

I think that with the extraordinary amounts of money that we do spend and have to spend as a world power, the tiny amount that we spend on the Peace Corps—I mean, it is infinitesimal, and yet good can come of it. You know yourself from what you have seen in the past history of the Peace Corps that sometimes we have to really negotiate higher to even go somewhere. If we have somebody in need and they are asking us to come, we ought to be able to be in a position where you, as Director, can know that you can almost automatically say yes. So, let's work together on that goal.

As I told you the other day when I met with you, I am delighted to see you here.

Mr. **Coverdell**. Senator, I thank you for your courtesy extended the other day and here at this hearing.

In light of your question regarding the associate volunteer program, I would like to submit for the written record some further information. In addition, I think I can provide you with some financial data that relates to your second question that might be useful to you and the committee.

Senator **Leahy**. Thank you very much. I would certainly appreciate any information you can provide.

[The information follows:]

10,000 PEACE CORPS VOLUNTEER GROWTH PLANS

I would like to update you on our progress toward reaching a 10,000 Peace Corps Volunteer force by 1992. The maintenance budget of $163.6 million submitted by the Administration will not allow the replacement of 3,250 Volunteers completing service in 1990. Over the last year, base operation expenses have increased at a faster rate than originally projected, particularly in former and current Volunteer medical costs, foreign currency fluctuation, and reimbursement to the State Department for overseas administrative support services.To simply maintain the current Volunteer levels and maintain quality Volunteer support systems, the agency would need approximately $169 million for FY'90.

I have reviewed the previously submitted 10,000 Volunteer growth plans, and it appears unlikely that we will reach the goal by 1992. A great deal of leadtime is necessary to work with host country officials to establish appropriate programming; to recruit, place and train Volunteers; and to negotiate new agreements to enter additional countries.

At this time, before the Administration has set its priorities for the United States Peace Corps, we are reluctant to fix any specific Volunteer levels and corresponding budget requirements for the coming years. However, let me assure you that I am committed to fulfilling the growth mandate set by Congress as quickly and as practically possible.

We are working on a sustainable growth plan using the following information as a basis for its development. (The Volunteer expenses illustrated in this chart represent over two-thirds of the agencies budget.) We will keep you apprised of our progress.

AVERAGE COST OF VOLUNTEER FROM RECRUITMENT TO END OF TWO-YEAR SERVICE

$ in thousands

	HIGH	LOW
RECRUITMENT & PLACEMENT COSTS		
RECRUITMENT	0.7	0.6
APPLICANT MEDICAL	0.2	0.2
STAGING	0.1	0.1
PRE-SERVICE TRAINING COSTS	7.5	4.9
IN-SERVICE COSTS		
ASSIGNMENT TRAVEL/TRANS	2.0	0.4
SETTLING-IN-ALLOWANCE	0.3	0.2
LIVING & LEAVE ALLOWANCE	6.8	6.6
IN-COUNTRY TRAVEL	0.8	0.4
TRAINING	2.4	0.8
OTHER MEDICAL COSTS	2.3	1.7
OTHER SUPPORT COSTS	4.8	1.8
CLOSE OF SERVICE COSTS		
COS TRAVEL	1.9	0.5
COS MEDICAL/DENTAL	0.2	0.2
READJUSTMENT ALLOWANCE & FICA	5.7	5.7
TOTAL COST/VOLUNTEER	35.7	24.1

OTHER COSTS

1) Medevac costs can range from $1.0K to $104.1K including travel, medical care and the volunteer's room.
2) Emergency leave can range from $1.7K to $4.0K including travel and fourteen day per diem.
3) Extension travel can range from $1.3K to $3.7K.
4) Other costs not directly associated with supporting volunteers in the field (e.g. FECA, staff and administrative support, and overseas vehicles) must also be considered.

PEACE CORPS ASSOCIATE VOLUNTEERS

This is in response to your question about the Peace Corps Associate Volunteer Program. Started in October, 1987 when Peace Corps found that as the countries become more developed, their need for highly skilled technical assistance increases, Peace Corps established the Associate Volunteer Program. Offering a shorter term of service has opened up a new talent reserve to Peace Corps and Host Country Governments and has provided opportunities for a new constituency of the U.S. population to serve as Peace Corps Volunteers.

The Associate Volunteer Program is intended to complement the scope of traditional two-year Peace Corps assignments by augmenting traditional projects with much needed technical expertise for three to eighteen months. Associate Volunteers are highly skilled in specific technical areas, of agriculture, education, health, or small economic development. Now in its second year, Associate Volunteers expand the scope of Peace Corps' ability to fulfill specific host country requests in these and other skill areas worldwide.

Associate Volunteers currently serving are, amongst other things, revising the educational curriculum in the Philippines, training Moroccan veterinarians, providing assistance in establishing loan programs in Paraguay.

Associate Volunteer placements

In the first year of the Program, Fiscal Year 1988, ten Associate Volunteers were placed in seven countries in Peace Corps' three regions. The Associate Volunteers placed were:

Ghana -	1 Math/Science Teacher Trainer; 1 Art Teacher Trainer;
The Gambia -	1 Math/Science Teacher;
Fiji -	2 Remedial Reading Specialists;
Togo -	1 Dentist;
Papua New Guinea -	1 Doctor;
Paraguay -	1 Cooperative Education Specialist; 1 Systems Analyst;
Jamaica -	1 Dentist.

Over 350 requests were received for Associate Volunteers for Fiscal Year 1989. To date this Fiscal Year the following Associate Volunteers have been placed:

Jamaica -	1 Dentist; 2 Loggers;
Philippines -	14 Primary School Teacher Trainers; 7 English Teacher Trainers; 2 Math Teacher Trainers; 2 Science Teacher Trainers;
Morocco -	11 Veterinarians;
Malawi -	7 University Professors 1 Dentist.

In addition to the Associate Volunteers already placed in Fiscal Year 1989, the Associate Volunteer Program hopes to place approximately 25 additional Associate Volunteers in 10 countries. The requests include, but are not limited to, doctors, occupational therapists, university professors, pharmacologists, dentists, and hospital administrators.

There are requests for over 120 Associate Volunteers in Fiscal Year 1990; attached are the lists of the Associate Volunteer requests for Fiscal Year 1990.

FISCAL YEAR 1990 ASSOCIATE VOLUNTEER PROGRAM REQUESTS

In the Africa Region, the following requests were submitted:

Benin:	Rehabilitation/Physical Therapy, 1
Central African Republic:	Tropical Botanist, 1 Capture Fisheries Specialist, 1 Health Education Professor, 1
Gabon:	Rural School Construction, 2 2Woodworking Shop Supervisor, 3 TEFL Teacher Trainer, 1
The Gambia:	Soil Lab Technician, 1
Ghana:	Computer Science Professor, 1 Sports Coach Professor, 1 Medical School Professor, 1
Lesotho	Large Animal Veterinarian, 1 Animal Scientist, 1

Liberia:	Radio Programmer, 2 Editor, 2 Curriculum Development, 2
Malawi:	University Professors, 5
Mali:	Health/Sanitation Specialists, 2
Niger:	Curriculum Development, 1
Senegal:	University Education, 1
Sierra Leone:	Medical School: Anatomy, 1 Medical School: Physiology, 1 Medical School: Community Health, 1 Physical Therapist Trainer, 1 Surgery Technician/Trainer, 1 Ophthalmology, 1 Teacher Trainer, 7 Office Machine Repair, 1 Refrigerator Tech. Trainer, 1 Computer Programmer, 1
Togo:	Pre-School Teacher Trainer, 1 Animal Scientist/Vet. Technician, 1 Dentist, 1 Agro-economist, 1
Zaire:	Water/Sanitation Engineer, 2

In the Inter-America Region, the following requests were submitted:

Costa Rica:		Teacher Trainers, TEFL/TESL, 3
Dominican Republic:		Agriculture Product Marketing, 1 Craft Product Development, 1 Ag. Extension/Construction, 1
Eastern Caribbean	- Antigua/Barbuda:	Occupational Therapist, 1 Radiologist, 1
	- Dominica:	Agriculture Education Instructor, 1 Vocational/Technical Trainer, 2 Handicraft/Home Economics, 1 Nurses, 2 Fruit Tree Specialist, 1 Swine Specialist, 1 Vocational Trainer, 1 Home Economics, 1

Ecuador:	Veterinary Lab Technician, 3 Artificial Insemination, 2 Fish Feed Formulation, 1 Agricultural Economist, 2 Artisanry Marketing, 1 Vocational/Trade Teachers, 2
Honduras:	Social Worker, Head Start, 1 Forest Pathologist, 1 Diagnostic Specialist, 1 Radio Producer, 1 Solid Waste Disposal, 1 Wildlife Researcher, 1
Jamaica:	Environmental Managers, 1 Park Development/Administration, 1
Paraguay:	Coop Organization Specialist, 1 Statistical Analyst, 1 Agroforestry Communication, 1 Audiovisual Specialist, 1

In the Near East, North Africa, Asia, and Pacific (NANEAP) Region the following requests were submitted:

Kiribati:	ESL Curriculum Specialist, 1 Secondary Ed: Math, 1 Secondary Ed: Science, 1 Secondary Ed: English, 1 Secondary Ed: Social Studies, 1
Marshall Islands:	Business Management, 1 Agroforester, 1 Secretarial Teacher Trainer, 1
Morocco:	Veterinarians, 12
Nepal:	Special Ed/Audiologist, 1 Optometry/Ophthalmology, 1 Veterinarians, 3
Papua New Guinea:	Doctors, 6
Sri Lanka:	Teacher Trainers, 2 Crop Packaging/Processing, 2 Dairy Farming/Breeding, 1
Tunisia:	Special Education PhD, 1
Yemen:	Management Information Specialist, 1

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. We will be submitting some additional questions for your response in the record.

Mr. **Coverdell**. Thank you, sir. We will be glad to respond to the questions.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

10,000 PEACE CORPS VOLUNTEER GROWTH PLANS

SEN. LEAHY: I've supported the Congress' goal of a 10,000 volunteer Peace Corps and I gather the Administration does too. You are currently at something over 6,000 volunteers. You have requested $163.6 million for FY'90. Is this enough to be on track for reaching the 10,000 goal by 1992? If not, why not, and how much would you need?

ANSWER: The maintenance budget of $163.6 million submitted by the Administration will not allow the replacement of 3,250 Volunteers completing service in 1990. Over the last year, base operation expenses have increased at a faster rate than originally projected, particularly in former and current Volunteer medical costs, foreign currency fluctuation, and reimbursement to the State Department for overseas administrative support services. To simply maintain the current Volunteer levels and maintain quality Volunteer support systems, the agency would need approximately $169 million for FY'90.

I have reviewed the previously submitted 10,000 Volunteer growth plans, and it appears unlikely that we will reach the goal by 1992. A great deal of leadtime is necessary to work with host country officials to establish appropriate programming; to recruit, place and train Volunteers; and to negotiate new agreements to enter additional countries.

At this time, before the Administration has set its priorities for the United States Peace Corps, we are reluctant to fix any specific Volunteer levels and corresponding budget requirements for the coming years. However, let me assure you that I am committed to fulfilling the growth mandate set by Congress as quickly and as practically possible.

SEN. LEAHY: How many qualified applicants do you expect to turn down this year because your budget can't support them?

ANSWER: During this year, we expect to turn down nearly 3,000 qualified applicants. During 1990, we estimate we won't be able to accommodate another 3,000 qualified Americans who wish to serve.

ASSOCIATE VOLUNTEER PROGRAM

SEN. LEAHY: I am interested in your Associate Volunteer Program in which Americans can serve for less than two years. This has enabled you to recruit highly trained, difficult to recruit volunteers for shorter periods of time. You mention veterinarians to Morocco, as an example. Have you used this program to get American doctors overseas to train local doctors where health care is lacking? What about to deal with emergency kinds of medicine, for example people who have suffered wounds and injuries as a result of warfare?

ANSWER: The Associate Volunteer Program has been successful in recruiting medical volunteers for Peace Corps service including doctors, dentists, audiologists, occupational therapists, and hospital administrators. Health care professionals placed as Associate Volunteers are involved in a range of activities from curative care to teaching in medical schools.

Accomplishments of medical Associate Volunteers in the first two years of the Program include providing medical training to doctors and treatment of patients in rural Papua New Guinea and conducting an epidemiological study of dental disease amongst 3000 school children in Lome, Togo. Dentists have also been recruited for Malawi and Jamaica.

While Peace Corps Volunteers, including Associate Volunteers, do not generally provide emergency relief assistance, Volunteers have been instrumental in recovery efforts, most recently in Jamaica following last year's hurricane, and in Nepal after its devastating earthquake. Volunteers do not serve in areas of armed hostilities, and therefore, do not care for victims of warfare.

MOZAMBIQUE

SEN. LEAHY: It would be hard to think of a country more in need of assistance than Mozambique. Am I right that you do not have volunteers there? I know the security situation there is very bad due to civil war, but are you looking into the possibility to getting involved in the areas that are safe to work in? I would think our Ambassador there would welcome Peace Corps volunteers.

ANSWER: To date there have been no formal discussions and the Peace Corps has no representation or formal ties established with the Government of Mozambique. The major issue facing Peace Corps' entry into Mozambique would, however, be one of security.

Our Country Director in Swaziland, Jennet Robinson, visited the U.S. Embassy in Maputo last Summer at the request of the Ambassador to assess the various safety, programmatic and operational factors in a Peace Corps country entry. It was determined after Ms. Robinson's visit that the situation was too tenuous for entry and she would schedule another trip to Maputo in late 1989 or early 1990 to meet with Ambassador Wells to further assess the situation.

As you may know, the civil war is not limited to one section of the country but permeates the whole country. Only 4 to 5 cities represent an environment safe enough for Peace Corps operations during the daytime. Furthermore, the residents of those cities, including the capital of Maputo, are required to be within the city limits prior to sundown for reasons of security.

PHILIPPINES

SEN. LEAHY: Last year we asked Mrs. Ruppe whether the Peace Corps was included in the discussions concerning the "Multilateral Assistance Initiative" for the Philippines. She said no, and we both agreed that it should be. Do you know if since then the Peace Corps has had an opportunity to give input into those discussions?

ANSWER: Peace Corps has not yet been included in discussions here in Washington regarding the Multilateral Assistance Initiative for the Philippines. In Manila, Country Director James Lehman has had several discussions with his counterparts at the USAID Mission regarding possible areas of collaboration. They have discussed the opportunity that the initiative might provide for Peace Corps but only in the most general sense. This is because USAID will be just one implementing agency among many to utilize MAI funds, and the level of funding that would be available to USAID is as yet not fully determined.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

PEACE CORPS CHINA PROGRAM

SEN. DeCONCINI: Senator Coverdell, a detail which strikes me in the Peace Corps Congressional Presentation for FY'90 is the planned expansion of operations to China. According to the report, a program to place Volunteers as English teachers in China is scheduled to begin before the end of 1989.

How will the current climate of violent repression against peaceful student demonstrators along with growing governmental crackdown on Western democratic thought effect the proposed expansion? Will the Chinese government welcome such a Peace Corps program? And how about the people?

ANSWER: As of today, July 7, 1989, we are initiating the process of delaying the beginning of our program in China. We were requested to do this in a letter that arrived yesterday from our sponsoring agency in China, the CEAIE. In it we were informed that even though they have been enthusiastically preparing for the arrival of the volunteers, the program must be postponed for now. The letter speaks also of our continuing to have discussions with them as to when it will be feasible for the volunteers to begin and we will, of course, continue to foster that special relationship. We believe that there will be Peace Corps Volunteers in China in the future and will continue to keep you apprised of developments and our efforts.

PEACE CORPS PREPARATORY PROGRAMS

SEN. DeCONCINI: Currently the Peace Corps has a study program for service as an alternative to ROTC, but it is only available at Norwich University in Vermont. Norwich has a much more substantial ROTC program than most typical American colleges and universities.

Is there any plan to make this ROTC-type program more widely available to schools across the country?

ANSWER: To date, only Norwich University offers a Peace Corps preparatory program, although Grinnell College in Grinnell, Iowa is in the advanced stages of an internal review that may lead to the establishment of a similar program.

Several other institutions have expressed interest in establishing similar Peace Corps preparatory programs. Should H.R. 985, Congresswoman Morella's bill establishing a federally supported Peace Corps preparatory program be enacted and funding provided, these institutions have indicated that they would establish Peace Corps preparatory programs.

The program at Norwich was independently initiated following Father Hesburgh's proposition that, as an alternative to ROTC, students could be encouraged to prepare for Peace Corps Volunteer service. Norwich University bears the full cost of the program, including financial aid for the participants. There is no contractual relationship between the Peace Corps and Norwich University; and the Peace Corps does not guarantee acceptance of the program's graduates, reviewing their applications as it does all other candidates for Peace Corps service.

MINORITY RECRUITMENT

SEN. DeCONCINI: The Peace Corps' FY'87 and FY'88 Annual Report states that in the past two years there has been a recruitment initiative to attract more minorities, but results of the recruitment were withheld.

In terms of numbers and actual experiences, how successful has the initiative to increase minority participation been?

ANSWER: The agency had marginal success with this minority recruitment initiative. However, as the chart below indicates, much more needs to be done to encourage minorities to become Peace Corps volunteers. We are now in the process of restructuring our minority recruitment strategy, and are investigating the possibility of collaborating with traditionally Black colleges, the King Center in Atlanta, and other organizations to expand our minority outreach program.

Minority Recruitment

	FY'87	FY'88	% increase
Minority Applications received:	1106	1278	+15%
Minority Nominations:	396	590	+49%
Minority Trainees:	187	233	+25%
Total Trainees:	2774	3429	+19%
Minority % of total volunteers:	6.7%	6.8%	

ASSOCIATE VOLUNTEER PROGRAM and FARMER-TO-FARMER PROGRAM

SEN. DeCONCINI: The Associate Volunteer and the Farmer-to-Farmer programs are very interesting methods of bringing skilled volunteers to the various countries. The host country officials requesting Peace Corps services must certainly want the well-trained professionals in these programs. However, it must be very difficult to recruit such trained, experienced people and convince them to uproot themselves and leave their jobs to join the Peace Corps.

What has been the response to these programs in terms of numbers of Volunteers?

ANSWER: The Associate Volunteer Program has been successful in recruiting scarce skill volunteers for Peace Corps service. Interest in the Associate Volunteer has been strong from host country governments and the United States population. However, we are evaluating the program to assess its cost-effectiveness.

Associate Volunteers currently serving are, amongst other things, revising the educational curriculum in the Philippines, training Moroccan veterinarians, providing assistance in establishing loan programs in Paraguay.

In the first year of the Program, Fiscal Year 1988, ten Associate Volunteers were placed in seven countries in Peace Corps' three regions. Over 350 requests were received for Associate Volunteers for Fiscal Year 1989. In addition to the 47 Associate Volunteers already placed in Fiscal Year 1989, the program hopes to place approximately 25 additional Associate Volunteers in 10 countries. The requests include, but are not limited to, doctors, occupational therapists, university professors, pharmacologists, dentists, and hospital administrators.

There are requests for over 120 Associate Volunteers in Fiscal Year 1990, 38 for the North Africa, Near East, Asia and Pacific region, 41 for the Inter-America region, and 53 for the Africa region.

Farmer-To-Farmer Program:

The Farmer-To-Farmer (FTF) Program has also placed experienced professionals from a variety of agricultural disciplines. These experts are not Peace Corps volunteers, but they do volunteer their consulting services to Peace Corps volunteers and host country counterparts for short periods of time.

During FY'88, the first year of the FTF program, nine FTF volunteers provided assistance to Peace Corps volunteers in six projects: beekeeping in Tunisia; cooperatives management in Paraguay; dairy plant management in Cameroon; animal husbandry improvement in Benin; rice production in Mali, and dairy herd management in Honduras. To date in FY'89 13 FTF volunteers have completed similar assignments in five countries. Approximately 30 additional FTF volunteers will serve this calendar year. Requests for 70 FTF volunteers have been received from countries worldwide for next year.

FTFVs are recruited through the efforts of the private, non- profit agency which administers the FTF Program: Volunteers in Overseas Cooperative Assistance (VOCA). This program responds to requests for specific skills, and FTFVs are therefore recruited on a case-by- case basis. There are, however, approximately 350 agricultural professionals across the U.S. who are in VOCA's talent bank, having indicated their availability for these short-term assignments should a request for their skills be received. This supply of interested individuals is growing continuously as the public, and the agricultural community in particular, learn of the FTF Program.

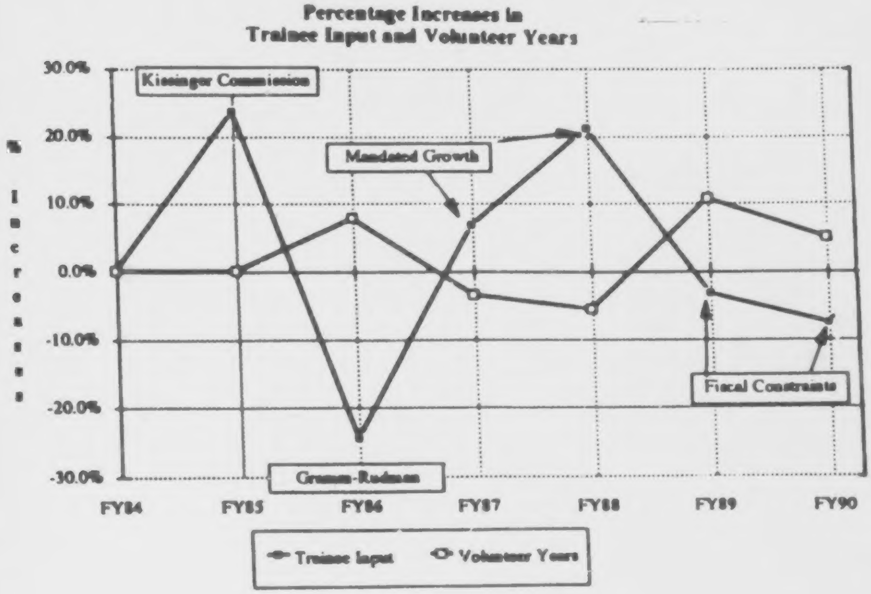
QUESTION SUBMITTED BY SENATOR ALFONSE M. D'AMATO

PROGRAM CONTINUITY

SEN. D'AMATO: A criticism levelled against Peace Corps is that the programs undertaken often lack continuity. A volunteer is sent for a two-year stint, begins to make headway, and then returns home without being replaced. How would you respond to this, Senator Coverdell?

ANSWER: We recognize that lack of program continuity is a significant problem. Too many projects have faltered when a volunteer's service was prematurely cancelled because a replacement volunteer was not recruited, or because the host country's priorities and strategies had changed. The major factor contributing to lack of program continuity is inconsistent volunteer levels. For example, in fiscal year 1990 we will not be able to afford to replace 250 volunteers as the graph below illustrates. Long-range, guaranteed budget levels would permit us to develop sustainable program and recruitment plans. Programming teams are constantly developing strategies to overcome these obstacles in recruitment and in the field.

Peace Corps' overall mission is to respond to the needs of each host country in which we have volunteers. Our on-site program staff is responsible for working with the Ministries of each country to develop volunteer projects that are integrated with the national goals of that country. Ultimately, we hope that each program and project will result in a transfer of knowledge and expertise from the volunteer to his or her host country counterpart, or that the volunteer will work himself out of a job. In the best of projects, the need for a volunteer gradually disappears. Our overall goal remains to empower others to do what the volunteers have done.


Percentage Increases in Trainee Input and Volunteer Years

EXPORT-IMPORT BANK

STATEMENT OF WILLIAM F. RYAN, ACTING PRESIDENT AND CHAIRMAN

ACCOMPANIED BY JAMES HESS, TREASURER AND CONTROLLER

PREPARED STATEMENT

Senator **Leahy**. Our next witness is Mr. William F. Ryan, acting president and chairman, Export-Import Bank of the United States.

Mr. Ryan, I will also put your prepared statement in the record.

[The statement follows:]

STATEMENT OF WILLIAM F. RYAN

I appreciate the opportunity to speak to the Subcommittee today about Eximbank's authorization limits for FY 1990.

This is a time of difficult budget choices, of hard decisions. As we approach those decisions, I believe we must keep in mind the importance of exports to our nation's jobs and economy, and of trade growth to the global economy.

In the President's Trade Policy Agenda submitted to the Congress on March 1 of this year, the Administration expressed its support for an "overall trade policy to expand the economic benefits derived from the increasingly interdependent trading system by obtaining the maximum range of overseas openings for American manufactured goods, agricultural products, and services industries."

To implement the export-promoting objectives of the agenda, the Administration recommended "support of U.S. exports by the Export-Import Bank and consideration of ways to provide adequate and competitive financing for U.S. exports, such as negotiations among OECD governments to reduce credit subsidies further."

That is also, in essence, the mandate of the Omnibus Trade and Competitiveness Act: achieve a free and fair global trading system.

As the official export credit agency of the U.S. government, Eximbank has a vital role to play in fostering American growth and jobs, and in achieving our global economic objectives. We can be fully successful in that role only if we are able to operate all our programs -- export loans, guarantees and insurance -- at adequate authorization levels and with adequate administrative expense limits.

Export Loans

Whereas the last Reagan Administration budget had proposed terminating Eximbank's direct loan program in FY 1990, the Bush Administration has concluded that direct loans for exports are still necessary for the U.S. to be competitive, and the Administration now supports a loan limit of $500 million, with $100 million of War Chest authority under this limit.

Continuing Eximbank's loan program with adequate limits is critical for us to carry out our Congressional mandate to help America's exporters compete in the global market on terms that are "fully competitive with the Government-supported rates and terms and other conditions available for the financing of exports of goods and services from the principal countries whose exporters compete with United States exporters."

Eximbank's loan program is designed to neutralize the effect of subsidized export financing by competitor governments, and thus allow the market forces of price, quality and service -- and not foreign governmental actions -- to determine the structure of U.S. exports.

Most industrialized countries and many developing countries support their industry with subsidized credits to the buyers of its exports. This practice of governments subsidizing export sales and targeting specific export markets is to be regretted, but it is a reality and on the increase. In certain borrowing countries -- China, India, and Indonesia, for example -- suppliers are often required, as a condition of bidding, to bring heavily subsidized financing to the table.

It is argued that the Eximbank direct loan program accounts for less than 1% of total U.S. exports of over $300 billion and, therefore, is of little importance. That argument misses the mark. Our financial help is vital for some exporters in some markets. Most U.S. exports are to OECD countries and are based on long relationships. Official export credit activity, on the other hand, is concentrated in the developing country markets of the world. Official export credit is vitally important to financing exports to countries like China, India, Indonesia, Algeria and, increasingly, to Latin America. Other export credit agencies are vigorously competitive in these areas.

Eximbank is important to the competitiveness of a significant portion of the U.S. capital equipment export sector, together with related services. Eximbank accounts for up to 5-10% of total product sales of important capital goods industries. Without these export sales, the efficiency of these sectors may be undermined, and they could eventually lose their ability to compete either at home or abroad.

Exports mean American jobs, wider markets, more product development and R&D, and therefore improved American industrial competitiveness, which will produce the high quality American jobs of the future. That's what a vigorous, competitive Eximbank is all about!

Eximbank's direct lending program provides a way of exerting influence in support of broad U.S. international economic policy objectives in specific countries. For example, Eximbank's relationship with Brazil, Mexico, Nigeria, the Philippines, and Yugoslavia represents a critical policy linkage to overall U.S. national objectives. As a large and visible lender in these markets, Eximbank's willingness to provide guarantees, direct credits and insurance has been a valuable part of the LDC debt strategy. With the continued reluctance of the private banks to supply new funds to the LDCs, Eximbank must remain in a position to play an important role as a provider or guarantor of new money flows to finance US exports.

Let me point out that American export growth continues and the need for financing is intense. In FY 1988 demand exceeded our $693-million authorization ceiling by $150 million, which we had to push into 1989. Loan demand is strong again this year, in line with the improved win-ratio in export transactions. We fully expect to exceed our 1989 budget authority of $695 million, and we expect to have to defer some authorizations into 1990.

Guarantees and Insurance

No less essential to Eximbank's efforts to make American exporters competitive in the world market are the Bank's guarantee and insurance programs. They are designed to relieve some of the risks inherent in doing business in overseas markets and to encourage commercial banks to move back into trade finance, which they have largely abandoned. Our guaranties support medium- and long-term private loans for exports, essentially at market rates and involving very little subsidy. Through the Foreign Credit Insurance Association (FCIA), we insure export receivables against political and commercial risks. The Administration is asking for a limitation on guarantees and insurance of $10.4 billion in 1990, a slight increase over our 1989 limitation of $10.2 billion. This should be enough.

War Chest

Special mention should be made of our War Chest authority, the use of which in the last few years has led, in large part, to the 1987 OECD agreement tightening the rules governing, and making more costly the use of, tied aid and other highly concessionary loans that distort international trade and spoil certain markets.

Since reaching that agreement, we have used the War Chest strictly to police the agreement. We have recently sent draft legislation to the Congress requesting an extension of the War Chest at a funding level of $100 million through FY 1990.

While other countries are generally observing the rules, there is little evidence that they are any less willing to use this form of highly subsidized financing: the OECD reported a 30 percent increase in offers of tied aid credits between 1986-87 and 1987-88. They have been running at $5 to $7 billion a year for the last four years.

The Omnibus Trade and Competitiveness Act of 1988 directed Eximbank to work with other government agencies to develop a report describing and analyzing tied aid practices, and making recommendations on how to address this growing problem for American exporters. The Bank's report was submitted to the Congress on April 20, and copies have been delivered to Subcommittee members.

Small Business

A 1983 Congressional mandate directs us to make small- and medium-sized businesses that want to tap the export market a priority. We were convinced, long before the Business Week survey of February 27, 1989 emphasized the role small business plays in exports, that small- and medium-sized businesses are the future for our export success. Small business is big business at Eximbank!

We have concentrated our limited marketing resources on these small businesses, through our seminars at Eximbank and through our city/state outreach effort, which we launched as a pilot project in 1988. We took what we learned through the pilot project to develop a City/State Agency Cooperation Program that the Board of Directors approved in February. It will make a strong commitment to regional export communities at minimum expense to the U.S. government. This new program will be open to any state or city export development agency with an established budgetary and personnel commitment to exports. We offer hands-on training in our programs and on-location assistance in program development that will enable local agencies to become effective export-financing entities: to become "mini-Eximbanks" all around the nation. So far, we have received serious inquiries from 24 entities that want our help in developing these local programs.

Fiscal year 1988 was the most successful so far for Eximbank's Working Capital Guarantee Program, which is designed to support loans for marketing, inventory and production expenditures for small-business export sales. We doubled our activity once again and have crossed the $250-million mark in loan guarantees approved. Since 1983, Eximbank has authorized 273 working capital guarantees involving 213 exporters and 141 banks for a total of $275 million.

Working capital guarantees have gone to exporters in 36 states. The top five exporting states under the program thus far have been Kansas, Texas, Illinois, Wisconsin and Mississippi.

Administrative Expenses

In order to carry out effectively our Congressional mandate to facilitate the export of U.S. goods and services abroad and to fill our role in U.S. foreign economic and trade policy, it is essential that Eximbank be provided with an adequate administrative expense limit.

Beginning in FY 1988, Eximbank encountered a substantial increase in demand for service from U.S. exporters arising from rapidly increasing use of our labor-intensive Working Capital Guarantee Program for small businesses, from an increase in overall export activity on the part of U.S. exporters, and from the 1986 Congressional mandate that we permit any person pursuing an export transaction to apply for a loan or guarantee directly to Eximbank rather than through commercial banks.

The requirement of direct access became an even more significant factor as commercial banks continued a wholesale withdrawal from the trade finance arena. Consequently, for FY 1989 the Administration requested an administrative expense limit of $21.8 million. Unfortunately, Congress reduced this figure to $20.4 million. During 1989, we have had to reduce substantially our travel budget to market our programs to small- and medium-sized exporters. Further, we have been unable to fill staff vacancies in a timely manner. As a result, turnaround time in processing applications and servicing exporters has been lengthening, which, in turn, can adversely affect our exporters' ability to compete.

About 86 percent of Eximbank's administrative budget consists of personnel costs and rent. The remaining 14 percent represents the minimum amount required for routine operation of the bank, including telephone, telex and postage expenses, equipment repair and maintenance, office supplies, travel and printing and reproduction.

I know that we are all under severe budget restraints, but I must emphasize that funding for our administrative expenses at the level of $22.8 million requested by the Administration is essential if Eximbank is to fulfill its Congressional mandate and properly support increased U.S. exports in a highly competitive international marketplace.

Conclusion

Thank you, Mr. Chairman, for giving me the opportunity to outline Eximbank's budget needs for FY 1990. I would be happy to answer any questions you or members of the Subcommittee may have.

EXIM'S CHINA PROGRAMS

Senator LEAHY. I am sure you realize the obvious question I am going to ask is how involved Exim is in China and how important are your programs, first, to the Chinese economy and, second, to American businesses. Nothing like plunging right in here.

Mr. RYAN. OK; let's get to the heart of it.

I believe we did provide to the committee staff yesterday a rundown on the loans that we have made to China, the ones we have in the works, et cetera.

The brief history is that the President in April 1980 made a determination that it was in the national interest for us, the Eximbank, to work with China, extend loans, guarantees, insurance, et cetera, even though China was and is a communist country. It took a Presidential determination to get us started.

Since fiscal year 1981, as the schedule shows that we provided to the committee, we have done a fair amount of business. We have done about $500 million worth of loan business, of which about $300 million has been disbursed, and the rest is in the process of being disbursed for a wide variety of projects.

This fiscal year we have already approved two loans for China, totaling about $174 million. There is another one that is in the final stages of approval for the signaling system of the Shanghai Metro. If that goes through in the coming months, it will bring this year's total to about $200 million. Therefore, China is a leading borrower, if you will, from the bank these days, certainly in the last 2 years.

We have another batch of cases that are in various stages of review and approval before issuance of a preliminary commitment and, indeed, we do have commitments on about $100 million.

We do also a modest amount of insurance cover for exports to China. So far this year, for example, almost $20 million of smaller, individual transactions have been covered by insurance by our agent FCIA, the Foreign Credit Insurance Association, in New York.

We do think that China is a major market for us. It has grown tremendously in the last few years. American exporters are keenly interested in that market. We have tried to be as helpful as we can in extending loans where appropriate for industrial type projects in that market: First of all, because American exporters need support; and second, because China is an excellent credit. They are very careful about how they conduct their affairs. They are punctilious in meeting their payments. In short, we like the way they do business.

We like to think we are making a significant contribution to the economy there in certain selected sectors. We are not alone in that, as you well know. The other export countries and their credit agencies are very active in China, much of it in the form of mixed or tied aid credits, which we have used sparingly, although we have made one offer in that way.

PROPOSED SANCTIONS AGAINST CHINA

Senator LEAHY. You know, there has been this interagency review of what further sanctions could be imposed against China. There are, of course, the things that the President has already announced. Do you know whether curtailing the Exim program itself has been considered as a potential sanction

Mr. RYAN. I think it is too early to say, Senator. I did happen to hear the President last night in his talk to a business group where he reiterated what he said at his press conference yesterday, namely, that we are stopping military exchanges, but we hope to be able to continue without interruption the commercial and investment-type arrangements which he said are overwhelmingly important for us and for China. So far that is our view and we are continuing to conduct business quite as normal.

Senator LEAHY. Have you made any recommendations on that directly to the administration?

Mr. RYAN. No; we have not.

Senator LEAHY. Prior to this interagency task force.

Mr. RYAN. No; we have not.

Senator LEAHY. Suppose Exim activities were included in sanctions. Who gets hurt the most? The Chinese Government, the Chinese people, the American businesses? What happens?

Mr. RYAN. It is very hard to give a generalization on that, Senator. Certainly our primary focus is the American exporter. We are not a development agency as such. Our first concern would be the American exporter who has worked for maybe 1 year or 2 years, even 3 years, to get a significant order in China and who is now told we can't go forward with the transaction. We have to believe that the U.S. technology inherent in our export orders is very important to China. They certainly seem to prefer it in many areas. One has to believe it would be harmful or detrimental to the development of those particular projects, and therefore to the whole economy.

EXIMBANK DIRECT LOAN AUTHORITY

Senator LEAHY. The administration had supported around $100 million for the direct loan program. Now, in your statement you say they support a $500 million direct loan program. Does that include the $100 million for the war chest, in other words, a $100 million war chest as part of the $500 million?

Mr. Ryan. Yes; the $100 million of war chest authority would fit under that $500 million, if that is the number, of loan authority.

Senator Leahy. So, $500 million total, including both.

Mr. Ryan. Yes.

Senator Leahy. Now, if you get the funding level which they have supported, can you operate a sensible and meaningful direct loan program?

Mr. Ryan. If we get the $500 million funding level? Well, I have to say, Senator, it will be difficult.

In the current fiscal year, we have a level of $695 million in direct loan authority. As a result of some prior fiscal year cancellations, we picked up another $14 million this year. So, our direct loan level for fiscal year 1989 is roughly $700 million.

We feel virtually certain this far into the fiscal year that we are going to overshoot that requirement in demand and we will have to do what we did last fiscal year, that is, defer some approvals from one fiscal year to the next. Every indication so far this year is that demand will exceed this year's level of $700 million. And the same, given our forecasts, is true of next year.

One must hasten to add there is no hard and fast and accurate way to forecast. When we forecast, we go through every one of the 400 or 500 working case situations we have with an exporter, and we make a probability prediction as to whether that deal will come through, whether it will come through this year, next year, or the year following. Most of these projects have a very long lead time. However, we do that exercise regularly, and our present indication is that $500 million for next year would not take care of what we see as the best estimate of reliable and legitimate demand for competitive financing from our exporters.

LOAN DEFAULTS

Senator Leahy. When we look at these numbers, there is one area that I am not too sure on, and that is the rate of defaults on Eximbank loans. As you know, GAO and a number of others have expressed some concern about the amount of debt that you are piling up or that Exim holds and what happens if the people start defaulting. What is the projected rate of default on Eximbank loans and guarantees today?

Mr. Ryan. Our financial statements for the just closed fiscal year will be out shortly. You will see that we have delinquent loans of $2.7 billion, out of a loan portfolio of $10 billion. So, almost 30 percent of the portfolio is delinquent, meaning more than 90 days past due on one or more installments. But, we show the total amount of the loan, not just the installment, as delinquent on our financial statements.

Now, most of those $2.7 billion of loans are sovereign loans, virtually all of them. We continue to maintain that those loans, even though delinquent, and even though we have stopped accruing interest on most of those loans for income statement purposes, that they are going to be repaid. Undoubtedly many of them will have to be rescheduled.

As of this point in time, we at Exim and the administration have determined that it is not appropriate to write those loans down, which I think is the point of your question and the complaint of GAO.

EXIMBANK FINANCIAL CONDITION

Senator LEAHY. I am just concerned about getting to the point that the defaults are so high that we end up having to make additional appropriations to cover them. That is my concern.

Mr. RYAN. Yes; there has been a great deal of discussion of that.

As you will notice from this year's financial statements, our retained earnings reserve is now in deficit and our $1 billion of basic capital is declining. By the end of next fiscal year, we may begin to go negative in net worth.

If one were to assume that these loans were not going to be repaid or that we should establish a loan loss reserve against all our loans of, let's say, 30 percent, $3 billion, that would put us into a significant negative net worth position. One could, to cure that, appropriate funds and restore us to a positive net worth.

We considered that last year, discussed that actively within the administration. The decision was made that that was not necessary and perhaps undesirable given all the budget restraints and because we again do not go out and borrow money from the capital markets. We do not take deposits. We are an agency of the U.S. Government. What we do and what we borrow from the Treasury, from the FFB, is on the full faith and credit of the United States. Therefore, we can continue to operate with a negative worth when that time arrives.

Is it appropriate to establish a reserve? That is a large question. We can discuss that if you like, but that basically is our situation.

If I may go one step further, Senator, we do not like to have a negative net worth. We have a prospective new chairman who has not yet been named by the White House, but we are beginning discussions with him. He says, coming into a bank with a negative net worth or a negative net worth just over the horizon—what is going on here?

I think what one has to do is focus on what Eximbank is. It is not a bank. It is organized as a bank for purposes of accounting, and that is probably a very wise move. Actually, we are an export credit agency, and we have financed $200 billion worth of exports over 55 years. We approved loans of some $50 billion. We have successfully collected with interest $40 billion of those loans, and we still have a portfolio of $10 billion.

If you look back at what we have accomplished over that period, not just Mr. Hess and I, but all of those who have served at the bank over the years, we have supported exports at a subsidy cost of roughly 1 or perhaps 2 percent depending on how you assume our loans are going to play out. At the very most, even if you established a healthy loan loss reserve, $3 billion, looking at it from a corporate point of view, we would have financed those exports at a subsidy cost of less than 5 percent.

And, I submit, that is a cost, a subsidy to support important exports. It shows up in our financials as a negative net worth. It is a far lower cost than our competing agencies have paid over the years, and I would submit it has been well worth it, given the jobs, the taxes, the competitiveness that we have promoted through that export support.

Senator LEAHY. Thank you. Do either of you gentlemen want to add anything further?

Mr. RYAN. Mr. Hess is our Treasurer/Controller, and I thought if you got into real numbers——

Senator LEAHY. I may want to follow up with a couple of questions for the record.

Mr. RYAN. Yes.

ADMINISTRATIVE EXPENSE BUDGET

Maybe one point I could make, Senator. We do have our loan budget. That is our main concern.

Another matter we would like to just mention is our administrative budget. We did not get the amount requested last year for various reasons. The administration has asked for $22.8 million for the coming fiscal year. We are a people business as any bank is, and our exporters need a lot of hand-holding at times, and at other times they need very sophisticated structuring of transactions. We have been shorthanded. The turnaround times have lengthened. Our exporters have complained, and they have, in some cases lost deals because we were not responsive enough.

The amount requested by the administration, even the outgoing administration, is nothing more than an inflation adjustment number, $22.8 million. We would hope that that could be fully funded at the requested level so that we have enough people to do a good job for the American exporter.

ADDITIONAL COMMITTEE QUESTIONS

Senator LEAHY. Thank you, Mr. Ryan for being here today. I will leave the record open for members to submit written questions to you.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Eximbank and China

Sen. Leahy. Mr. Ryan, how involved is Eximbank in China? How important are your programs to the Chinese economy? How important to American businesses?

Mr. Ryan. Since Eximbank began operations with the People's Republic of China in 1981 Eximbank has approved loans in a total amount of $497 million for U.S. exports of goods and services to 12 projects in China. As of May 31, 1989, payments have reduced the current exposure under these loans to $439 million. Through the Foreign Credit Insurance Association (FCIA) Eximbank also issues short-term insurance for U.S. exporters to China so that total exposure as of May 31, 1989 was:

Medium and Long-Term Loans	$439 million
Short-Term Insurance	$ 18 million
TOTAL	$457 million

The importance of Eximbank to the Chinese economy is reflected in the nature of the projects which Exim financing assists: four electric power projects, two container refrigeration units, two chemical plants, a coal mine, a tire factory, a TV color picture tube glass plant and a steel tube plant. All of these projects contribute to the infrastructure and industrial development of China in accordance with China's development priorities.

While these projects are important to China's development, they would have proceeded without participation of U.S. companies or Eximbank, since Japanese and European suppliers were competing on all of these cases supported by their governmental export credit agencies. Moreover, we have determined that without Eximbank competitive financing assistance the U.S. export sale would not have gone forward. Finally, this sale provided jobs for 12,000 American workers.

Sen. Leahy. Would it make sense to include Exim programs in any sanctions we might apply against the Chinese government? Has that been considered within the Administration yet? Are you participating in any interagency task force or deliberation on possible actions against China should the violence continue?

Mr. Ryan. The Administration has announced that it continues to review possible government actions in various areas of U.S. China relations as events in China unfold. Eximbank participates in an interagency task force which meets regularly to coordinate U.S. Government actions toward China. The Administration has not at this time advocated bilateral economic sanctions which could affect Eximbank programs for China. The Administration believes that commercial cooperation should keep moving forward.

The President has stated he does not want to hurt the Chinese people. He believes that commercial contacts and market reforms have led to the current quest for political rights, and democratic forms of expression.

Sen. Leahy. If Exim activities in China were included in any package of sanctions against the Chinese government, what impact would that have? Who would be hurt most, the Chinese government and its plans for modernization, the Chinese people, who need jobs, or American business?

Mr. Ryan. The impact of suspending new Exim commitments for China would be felt by China and by U.S. exporters. However, unless the suspension of government export credit for China were a multilateral action, there would be no impact on China. An action by the U.S. alone, or only a few countries, would allow China to import from other countries with government export financing, and the U.S. suppliers and labor would suffer the losses. In fact, U.S. export credit so far to China is much less than what others have provided, so that it is important that the other major providers be involved. Whereas, Eximbank commitments currently are only $457 million, Japan has outstanding some $5 billion in commitments, France $4 billion, U.K. $2 billion, Germany about $800 million; and based on their exporter bidding activity these countries also are the largest potential sources of government export credit for China which would be affected by a multilateral suspension of future support. The effectiveness of changing Chinese government behavior even by multilateral export credit sanctions can be questioned, given China's demonstrated ability in the past to operate as a closed economy at the cost of inefficiency, slower development and lower standard of living for its people.

Foreign Tied Aid Hurts U.S. Exporters

Sen. Leahy. Recently, you testified that United States companies in five important industries are losing $400 to $800 million in potential exports annually to foreign competitors that take advantage of "tied" aid credits from their governments. U.S. trade losses could amount to as much as $1-$2 billion if all other industrial sectors are taken into account.

If the problem of tied aid by foreign countries is this significant, why has the Administration only requested $100 million to use in our own tied aid program? Is that enough to make any difference to a nation like Japan, for example?

Mr. Ryan. The War Chest was established as a selectively applied tool to bring the OECD member nations to the negotiating table, not as a mechanism to compete with foreign tied aid credit activity. Hence, the amount of funding is not necessarily related to the level of competition facing U.S. exporters.

China, India and Indonesia Removed from War Chest List

Sen. Leahy. You have testified that China, India and Indonesia should no longer be entitled to Exim "War Chest" funds because of their increasing financial strength. This is a paradox considering the fact that the Japanese are aggressively moving to provide economic incentives to these countries to purchase Japanese products.

Why, at this critical juncture in our trade relations with Asia, do you propose withdrawing from the fight in these Chinese, Indian and Indonesia markets?

Mr. Ryan. China, India and Indonesia are three of the major developing economies of the world and they have need for large volumes of outside capital in many forms -- World Bank and Asian Development Bank loans, bilateral aid grants and concessional loans, bilateral government export credits and guarantees, commercial bank and supplier credits and private investment. Eximbank believes that in these countries there are an increasing number of projects which can pay their way without having to rely on grants or concessional financing such as electric power plants, telecommunications projects, computers, locomotives and railway signalling equipment, airport radars and communications equipment, construction equipment, industrial plants, coal mines and oil and gas development. Nevertheless, we see tied-aid (mixed-credit) financing consistently provided by other governments to promote their own exports to these types of projects. We continue to urge in OECD negotiations new agreements to reduce such practices, and we have used our limited "War Chest" funds, as intended by Congress, to counter specific cases of violations of OECD rules in tied-aid offers by other countries. We intend to continue such responses where needed to enhance discipline in OECD practices. Other countries need not reduce their aid contributions to developing countries, but they should increasingly untie such aid from their own exports (as Japan has begun to do) or reduce use of aid funds for projects which can attract financing on other than concessionary terms.

Critics of the Bank

Sen. Leahy. Critics of the Export-Import Bank, including some within the Administration itself, have charged that the Bank is an anachronism in this age of relatively free trade and global markets. They argue that a Government institution should not be assuming financial risks which private institutions avoid and that subsidized export financing channels scarce credit to uses that would not meet a market test.

According to this argument, the Bank's credit policies are little more than back-door subsidies to wealthy American multi-national companies. In this era of budget austerity, this is a luxury that the American taxpayer can no longer afford.

How do you respond to these arguments?

Mr. Ryan. Calling Exim an anachronism mistakes the purposes of Exim credit subsidies and commercial bank guarantees. All Exim programs are designed to "correct market imperfections." That is, they allow to happen what the market--without artificial distortions from foreign government subsidies or exaggerations of risk caused by short-term pressures on profits--would otherwise have yielded; they do not "promote" exports beyond the level that the perfectly-functioning market would have generated.

Given the increasing importance of exports to the vitality and viability of many U.S. manufacturing industries and the critical role of manufacturing in the overall competitiveness of the U.S. economy, the level playing field and long-run prospective provided by Exim credits and guarantees have an even greater role to play in today's world.

Recapitalization

Sen. Leahy. It is my understanding that for the five years through September 1986, Exim lost $1.4 billion through losses on low, fixed interest rate loans made in the 1970's. By early 1988, the Bank's capital was expected to fall to about $500 million and to less than $200 million in 1989. In 1990, the Bank will have exhausted its capital and reduced its total equity to less than $200 million.

How are you going to deal with this problem of decapitalization of the Bank? Would it make sense to prepay some of your old borrowing made at much higher interest rates, and reduce your capital outflow? Would you need legislative authority to refinance your outstanding debt this way?

Mr. Ryan. The issue of recapitalization of the Bank has been examined several times. At this time, no proposal is being made to recapitalize the Bank. Since the Bank can continue to operate even with negative equity, there is no legal requirement that the Bank be recapitalized for it to continue to operate its export support programs.

Prepaying old borrowings would entail a prepayment penalty which would reduce capital immediately. This would negate any benefit of refinancing that debt at a lower interest rate. The Bank does not need legislative authority to refinance its debt, but would need authority to waive the prepayment penalty to avoid incurring the prepayment costs.

Defaults/Loan Loss Reserve

Sen. Leahy. GAO and others have expressed concern about the mounting bad debts Exim now holds, and the growing problem of defaults.

What is the projected rate of defaults on Exim loans and guarantees now? Will defaults reach a rate that additional appropriations will be necessary to cover them?

Some have suggested Exim ought to establish a loan loss reserve fund, similar to those maintained by other lending institutions to protect themselves from bad debts and uncollectible loans.

What is your reaction to that?

Mr. Ryan. We do not believe significant additional delinquencies will occur. However, it will take some time for many of the countries with delinquent loans and guarantees to resume normal repayments.

Appropriations would only be necessary to cover defaults if the Bank's net income from all sources was insufficient to cover them. Since the Bank is incurring operating losses because of the negative spread between the lending and borrowing rates on its old loans, there is no income at this time from operations to cover other losses. Without a recapitalization, it is unlikely that the Bank will earn net income in the near future; consequently, at some point in time some form of budget authority might well be necessary to cover both the Bank's net operating losses and any unrecovered claims or loan write-offs.

The Bank does not believe that a loan loss reserve is necessary, and on that point we do have a disagreement with the GAO. We have discussed this issue in great detail many times over the years with the Congress, and our position remains that the Bank's sovereign loans and guarantees will be repaid and no loss reserve is necessary for them.

QUESTION SUBMITTED BY SENATOR ALFONSE M. D'AMATO

Eximbank and China

Sen. D'Amato. In the past, the Eximbank has been attacked for subsidizing sales by big business, for example, the sale of commercial airliners to Third World countries. What is not mentioned is the positive effect this has on our trade balance. What are your thoughts on this, Mr. Ryan?

Mr. Ryan. The purpose of Exim's subsidized credits is not to promote exports by lowering their price but to give exporters facing foreign officially subsidized financing a "level playing field" and an even chance at an export prospect. Moreover, the distribution of Exim credits reflect the pattern of U.S. exports. For example, exports of the top 50 U.S. exporters account for roughly 50% of all U.S. exports and Exim-subsidized support to those exporters is typically somewhat less than 50% of Exim credit authorizations. Also, small businesses are calculated to account for less than 10% of U.S. exports and some 10-15% of Exim credits support sales by small businesses.

OVERSEAS PRIVATE INVESTMENT CORPORATION

STATEMENT OF ROBERT O. DRAGGON, VICE PRESIDENT FOR FINANCE

ACCOMPANIED BY:

GERALD T. WEST, VICE PRESIDENT FOR DEVELOPMENT

JANE H. CHALMERS, ACTING VICE PRESIDENT AND GENERAL COUNSEL

PREPARED STATEMENT

Senator **Leahy**. We will now hear from Mr. Robert O. Draggon of the Overseas Private Investment Corporation.

Mr. Draggon, will you come up and talk about OPIC? As with the previous witnesses, we will include your prepared statement in the record and proceed directly to some questions.

[The statement follows:]

STATEMENT OF ROBERT O. DRAGGON

I appreciate the opportunity to report to you on the programs and activities of the Overseas Private Investment Corporation (OPIC). As in the past, we are not here to request appropriations, but to review with the Subcommittee the significant accomplishments of our ongoing programs and the scope of our new initiatives in order to assist the Subcommittee in authorizing program levels for OPIC's Finance programs.

It is a particular pleasure to appear before you, Senator Leahy, in your new position as chairman of this Subcommittee. Your past interest in OPIC's developmental mission is appreciated. This Subcommittee has in the past been very supportive of OPIC's mission, and OPIC looks forward to working with you to continue that relationship.

Until recently, OPIC was rarely visible among other larger development programs. But, in this time of increased international competitiveness and severe domestic fiscal restraint, OPIC is increasingly recognized as an important instrument of U.S. foreign assistance policy.

OPIC intends to meet the challenges that lie ahead. This is a time for innovation within OPIC as it explores new approaches geared to the needs of a changing world. We are already moving forward in implementing programs to increase OPIC's developmental impact in key Third World regions. A specific OPIC request before this Subcommittee for the first time seeks authorization to fund the pilot equity program, approved as part of OPIC's 1988 reauthorization legislation. Under this program, in addition to its existing lending programs, OPIC will use a small portion of its own revenues to make equity investments in developmental private sector projects in sub-Saharan Africa and the Caribbean Basin.

Another continuing priority for OPIC is development in harmony with environmental sensitivity. In response to the urgent need for protection of the global environment, OPIC has initiated work on another new initiative, a "sustainable resource fund." We see this Fund as one which will invest exclusively in projects in developing countries which involve the utilization of natural resources in an indefinitely sustainable and ecologically sound manner.

Both the equity and environmental initiatives are described in more detail later in my testimony. First, however, let me describe OPIC's traditional operations and our FY 1988 program accomplishments.

OPIC OPERATIONS

As you may know, OPIC began operations in 1971 with a statutory mandate to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed, friendly countries. To this end, OPIC provides political risk insurance and project financing in more than 100 developing countries around the world.

In achieving its development mission OPIC operates on a self-sustaining basis with no annual appropriations. We are proud that in FY 1988 OPIC provided support for a record 167 projects in 54 developing countries. OPIC also achieved a record net income in 1988 of $112.3 million, with total capital and reserves of $1.3 billion.

Each private investment project must meet strict qualifying criteria before it receives OPIC support. In line with statutory restrictions and the longstanding policy of its Board of Directors, OPIC does not provide support for projects that will adversely affect U.S. employment, are financially unsound, or do not promise benefits to the social and economic development of the host country or area. OPIC is also very sensitive to host country concerns and other project impacts. For example, OPIC will not support any project which will pose an unreasonable or major environmental, health, or safety hazard, or will result in the significant degradation of tropical forests, national parks, or similar protected areas.

Since OPIC appeared before this Subcommittee last year, the agency has been reauthorized for a period of four years, through September 30, 1992. During the reauthorization process, OPIC's unique importance and value in mobilizing private sector resources for development were strongly reaffirmed. A Congressional Committee Report recommending reauthorization of OPIC noted: "At a time of budgetary constraints and continuing declines in U.S. foreign assistance resources, OPIC is especially valuable as a self-sustaining mechanism by which substantial resources from the private sector are mobilized for development."

OPIC FINANCE PROGRAM

The core of OPIC's finance program consists of its Direct Investment Fund ("DIF") and Investment Guaranty ("IG") programs. Under these programs, OPIC provides project financing for new business ventures and expansions of existing projects sponsored by U.S. businesses in eligible Third World countries. Since OPIC's inception in 1971, nearly $1.4 billion has been committed in the form of direct loans and investment guaranties to finance more than 200 U.S.-sponsored projects in 56 developing countries.

This committee is responsible for establishing the annual operating levels of the direct loan and investment guaranty programs. Chart 1, shown below, illustrates OPIC's utilization of Congressionally approved lending authority during the period FY 1985-FY 1988.

Chart 1

OPIC FINANCE PROGRAM
UTILIZATION OF LENDING AUTHORITY AS APPROVED BY CONGRESS

FY 1985-FY 1989

($ (000) omitted)

Direct Loans

	FY 85	FY 86	FY 87	FY 88	FY 89
Authority Available	18,000	13,637	23,000	23,000	23,000
Commitments	18,000	13,637	23,000	23,000	N/A

Guaranteed Loans

	FY 85	FY 86	FY 87	FY 88	FY 89
Authority Available	150,000	136,372	200,000	200,000	175,000
Commitments	150,000	136,372	200,000	200,000	N/A

It is significant that OPIC committed its entire lending authority in each of the last four years. Continued high demand in FY 1989 leads us to expect that we will fully commit all available resources for both programs again this year.

OPIC participation in financing projects is based upon the inherent economic, technical, marketing and financial soundness of the proposed venture. In providing project financing, OPIC does not attempt to compete with commercial banks and other financial institutions, but seeks instead to complement private lending facilities where possible. Commercial banks frequently seek OPIC participation in project financing because they recognize that the involvement of OPIC, as a U.S. government-backed agency with unique capabilities and expertise, can substantially strengthen the prospects for project success.

OPIC support for projects is also in high demand due to commercial bank retrenchment from Third World investment. Only very limited medium to long-term U.S. dollar project financing is available commercially for high-risk private sector investment in less developed countries, and OPIC financing helps to partially fill this void. The greatest retrenchment of commercial lending is naturally occurring in the least economically and politically stable regions--those that have the greatest need--such as sub-Saharan Africa and Central America, areas in which OPIC is particularly active.

The U.S. small business community, using OPIC financing, can play a vital role in reaching priority Third World markets. Smaller businesses are awakening to the enormous export potential and job-creating opportunities to be realized through private investment in developing countries, but their ability to enter the market and compete is dependent upon availability of long-term funding for such projects. OPIC has been consistently successful in achieving a high degree of U.S. small business involvement in Third World development projects. During the period FY 1984 through FY 1988, 67 percent of OPIC's annual project finance commitments have been to projects sponsored by, or involving significant participation by, smaller U.S. businesses. This demonstrates that smaller businesses are prepared to compete and stand on their own if barriers to market entry can be removed by programs such as OPIC's loan program.

OPIC-supported projects reach lower income developing countries. Almost half of OPIC's financing in dollar terms during FY 1984 through FY 1988 has gone to projects located in the least developed countries, defined as those with per capita incomes of $896 or less in 1983 U.S. dollars.* This distribution is illustrated in Chart 2 below.

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*In the 1988 OPIC Amendments Act, Congress adjusted the per capita income categories to take account of inflation since 1985. The income categories used in this report are based on the 1985 legislation.

Chart 2

OPIC FINANCE PROGRAM
HOST COUNTRY GNP OF PROJECT COMMITMENTS

FY 1984-FY 1988

Host Country GNP	Number of Projects		U.S. Dollars (000 omitted)	
Low ($896 or less)	58	(48%)	$ 427,082	(50%)
Medium ($897-$3886)	55	(46%)	363,524	(42%)
High (over $3886)	7	(6%)	72,603	(8%)
TOTAL	120	(100%)	$ 863,209	(100%)

OPIC-supported projects also have a wide geographic distribution throughout the developing world, with the majority located in the Caribbean Region, Central and South America, and Africa. Such geographic distribution is illustrated in Chart 3 below.

Chart 3

OPIC FINANCE PROGRAM
GEOGRAPHIC DISTRIBUTION OF PROJECT COMMITMENTS

FY 1984-FY 1988

Region	Number of Projects	U.S. Dollars (000 Omitted)
Caribbean Basin/ Central America	61 (51%)	$187,181 (22%)
South America	20 (17%)	234,974 (27%)
Africa	12 (10%)	111,569 (13%)
Near East	10 (8%)	125,485 (15%)
South/East Asia	11 (9%)	145,850 (17%)
Other	6 (5%)	58,150 (6%)
Total	120 (100%)	$863,209 (100%)

Long-term developmental goals and objectives are unique to each individual country. All Finance projects are undertaken and implemented in conformity with the host country's economic and social priorities, and can lead to important benefits in the areas of trade, finance and employment.

Clearly, however, it is not only the host country that benefits when OPIC provides financial assistance to a development project. OPIC is equally concerned with the impacts of its projects on the American economy. To protect U.S. interests, all prospective OPIC projects undergo an extensive screening process. The purpose of this process is to ensure that there will be no significant adverse economic effect on the U.S.--especially in the employment area. The process also serves to identify and quantify those specific areas in which the U.S. will benefit from OPIC projects.

For example, OPIC devotes a considerable amount of time and resources to measuring the effects of proposed projects on the U.S. economy and employment. Each project is analyzed on a case-by-case basis. Our project approval and monitoring program for the U.S. effects of our projects was recently evaluated by Arthur Young, an independent accounting firm.* In reviewing how OPIC'S analytical procedures were applied to over 50 specific projects, the report acknowledged and confirmed the soundness of OPIC's analytical methodology, and concluded that it is in accordance with sound principles of economic impact analysis.

Furthermore, this independent study concluded that OPIC's internal screening and monitoring procedures ensure that OPIC projects do not have a negative impact on the U.S. economy or employment. In fact, the rigorous standards OPIC follows in selecting projects for assistance lead to significant U.S. gains in U.S. exports and U.S. employment.

With respect to U.S. trade benefits, OPIC's record is also strong. Many OPIC-assisted investment projects, for example, have helped to generate American exports through the initial procurement of machinery and equipment and the subsequent sourcing of production inputs from the United States.

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*Arthur Young, A Study of the U.S. Effects of OPIC-Assisted Private Investment Overseas, December 1987

The effects of OPIC Finance projects on the U.S. and host countries' economies are best understood through specific examples. Certain FY 1988 projects described in the following pages show that benefits to the U.S. include export earnings, increased employment, and a positive net balance of payments. The host countries for these projects stand to gain in terms of employment generation, expanded productivity, increased medical services and facilities, foreign exchange earnings and improved technical and management skills.

Chart 4, on the following page, provides key developmental highlights for all OPIC direct loan and investment guaranty projects committed during the period FY 1984-FY 1988.

Chart 4

OPIC FINANCE PROGRAM
U.S. AND DEVELOPMENTAL EFFECTS
OF PROJECT COMMITMENTS

FY 1984-FY 1988

U.S. Effects*

o Total U.S. Exports	$2.6 billion
o U.S. Balance of Payments	$2.2 billion
o U.S. Employment	17,621 person-years

Host Country Effects

o Host Country Revenues**	$581 million
o Net Host Country Foreign Exchange Benefit	$796 million
o Local Employment***	27,051 jobs

* Estimated effects over first five years of operations
** Average annual estimate for first five years of operations
*** Number of workers in fifth year of operations

FISCAL YEAR 1988 IN REVIEW

Having described our Finance program in general, let me now report in greater detail on our recent accomplishments in the Direct Investment Fund and Loan Guaranty programs.

Direct Investment Fund Program: Financing Small Business Investments

In FY 1988, OPIC committed $23 million, the full amount available, for direct loans to 8 projects in 8 developing countries. The direct loan program is available only to projects sponsored by U.S. small businesses and cooperatives.

The Direct Investment Fund has been especially effective in facilitating the participation of U.S. small business in the economic development of nearby countries in the Caribbean and adjoining Central American regions. Since 1984, approximately 62 percent of all OPIC direct loans has gone to projects in these key regions.

The following examples of FY 1988 loan commitments more fully describe the type of support provided by OPIC through the Direct Investment Fund program.

Project: Hotel Construction
Country: Belize

OPIC provided a $4.65 million loan to assist in the construction and operation of a 120-room hotel in Belize City, Belize. This project is especially significant because it will begin to provide the necessary infrastructure which Belize currently lacks to develop its tourist industry. Tourism is a designated government priority for new economic growth.

There are two key benefits to the U.S. First, the project conforms to our foreign policy goal of supporting the economic development of this Central American nation. Second, it is expected that $2,600,000 in furniture, electrical equipment and mechanical fixtures will be purchased from the U.S.

When completed, the hotel will provide full-time jobs for approximately 140 local workers, some of whom will receive hotel management training in the United States.

Project: Medical Laboratory
Country: Egypt

By providing a $250,000 loan, OPIC is supporting a project to help establish Egypt's first modern diagnostic laboratory. The clinical lab, to be located in Cairo, will include complete blood analysis capabilities.

When fully operative, the lab will provide individual patient testing and will also extend testing services to clinics, hospitals and other medical institutions in the greater metropolitan area.

The lab will significantly improve the health services available to the general public in Egypt by offering advanced diagnostic capabilities in the fields of hematology, cytology, immunology and histology.

The project will also have favorable U.S. trade effects. Initial procurement of U.S. goods -- primarily equipment and computers -- is estimated at $223,000, with an additional $640,000 in U.S.-sourced lab supplies to be procured during the first five years of operation.

Loan Guaranty Program:

Assistance to Capital Intensive Projects

OPIC's loan guaranty program provides U.S. financial institutions with guaranties for loans to larger, more capital intensive projects in developing countries. These guaranties protect against commercial as well as political risks. Both large and small investors are eligible for this program.

In FY 1988, OPIC used the entire $200 million available for loan guaranty commitments to support 10 projects in 9 developing countries. Two representative projects are described below:

Project: Gold Mine
Country: Ghana

An OPIC loan guaranty of $9 million will assist the development of a gold mine in the economically depressed Tarkwa region of western Ghana. The project, which will create more than 150 jobs for local workers and will provide training and education to Ghanaian workers at the mining site, is also expected to be an important source of foreign exchange earnings for the government of Ghana. The venture is an excellent example of how private sector investment can help less developed countries to develop their indigenous natural resources.

In supporting this project, OPIC is addressing the needs of one of the world's poorest countries, as Ghana's per capita GNP is $377.

The numerous positive U.S. effects of this project include the U.S. export of over $19 million in goods and services, the employment of 12 U.S. individuals for managerial positions, and aggregate fees and other financial flows to the U.S. totalling $8 million.

Project: Telecommunications
Country: Argentina

OPIC extended a $30 million loan guaranty to help two U.S. telecommunications companies construct a full-service, cellular telephone system in the Buenos Aires area. The project, which will create more than 200 permanent jobs, will significantly improve Argentina's telephone capacity and upgrade the quality of service to local businesses.

The project involves the partial privatization of the Argentine telephone system. Privatization is a high priority for U.S.-supported development projects. In addition to the favorable host country development impact, the project will generate substantial new U.S. exports of goods and services including digital switching components and other technical equipment, and service contracts. The project is expected to utilize $140 million in U.S. exports and generate 948 person-years of U.S. employment.

The Africa Growth Fund

Allow me to briefly update the Subcommittee on a project mentioned last year but which is now ready to move off the drawing board. We are pleased to report that two years of extensive planning and effort are now culminating in the formal launching of the Africa Growth Fund, a new type of investment vehicle for OPIC. The Africa Growth Fund is a privately owned and managed equity investment fund designed to raise and invest U.S. capital for creating, expanding or rehabilitating productive business enterprises in approximately 40 targeted countries in the sub-Saharan region of Africa. The Fund will be a limited partnership capitalized with $10 million in private equity and $20 million in OPIC-guaranteed long-term notes.

Frankly, reaching this point has proven far more difficult than initially expected, reflecting both the perceived risks and the dire need for private investment in Africa. Initial equity holders in Texas, New York and Georgia have now been identified, and investment decisions are currently pending with another ten companies. Five million dollars in equity has been subscribed to the Fund's placement agent and operations have commenced.

The assets of the Africa Growth Fund will be invested in a broad spectrum of African industries including agribusiness, chemicals, construction, machinery and equipment, finance, international trading and mining. Companies in which investments are made will be chosen on the basis of their sound financial condition and attractive growth potential, as well as the inherent developmental benefits to be gained by investing in them. The Fund will be able to purchase securities in a new or established company planning to expand or modernize, and requiring significant capital infusion in order to improve its competitiveness. Additionally, the Fund may be used to capitalize a previously state-owned company to facilitate the process of its privatization.

We believe the Africa Growth Fund will provide a practical means of facilitating American business investment in Africa, while at the same time providing a means of financing which does not exacerbate the debt crisis in this region. We wish to take this opportunity to thank those members of this Subcommittee who have given us so much support in the establishment of this initiative.

Prospective projects for investment by the Africa Growth Fund were identified during OPIC's recent investment mission involving countries of the Southern Africa Development Coordination Conference (SADCC). This mission, conducted from March 28-April 11, 1989, provided an opportunity for U.S. businesses to investigate, at their own expense, investment opportunities in this increasingly important region of Africa.

NEW INITIATIVES

Pilot Equity Investment Program

One of OPIC's principal new directions is reflected in the first-time request before you to approve OPIC's use of $10 million of its operating income to fund a pilot equity program. This innovative pilot program, authorized by Congress in 1988, will allow OPIC to make equity investments to facilitate private investment in two areas of the globe in dire need of productive economic and social development projects, sub-Saharan Africa and the Caribbean Basin. The program also will help to alleviate the shortage of Third World project financing available through commercial sources.

As provided in PL 100-461, this equity program will be financed by a $10 million fund established by "a one-time transfer from OPIC's income and revenues," subject to advance approval in appropriations Acts. Because the appropriation process preceded the reauthorization process, no funds were made available for the equity program in FY 1989, the first year of the four-year pilot program. The Administration's FY 1990 budget requests an allocation of $3 million.

In managing the equity program, OPIC will give preference to projects involving U.S. small businesses or cooperatives. Many U.S. small businesses do not have access to domestic or foreign capital markets, and because of a lack of equity authority, OPIC has been unable to support worthwhile projects that could not raise sufficient equity. The new authority will enable OPIC to assist U.S. small business projects which are unable to meet its minimum equity requirements, but qualify in all other respects.

Equity authority also enhances OPIC's ability to help U.S. companies remain competitive in Third World markets. In today's environment, businesses are increasingly being required to raise significant equity as well as debt financing for projects on which they are bidding. OPIC's major OECD counterparts all have the authority to provide equity capital to their national investors, thus providing them with a major advantage over their U.S. competitors.

Program guidelines for the equity program were approved by the OPIC Board of Directors on January 12, 1989. As required, OPIC will report annually to the Congress on the implementation of the program. At the end of the pilot phase, OPIC--and Congress--will have an opportunity to evaluate the program's success and its suitability for use in developing countries outside the African and Caribbean regions.

Sustainable Resource Fund Initiative

As a development agency, OPIC recognizes the primary role that biological and other potentially renewable natural resources play in the development process. To promote environmentally sound projects, OPIC is establishing a fund that would invest exclusively in projects designed to develop existing natural resources in ecologically and economically sustainable fashion. OPIC has already initiated discussions with large U.S. environmental groups about the fund. Through this fund, prospective private equity participants would be offered diversified investment opportunities and a leveraged return on their investments. At the same time, the Fund's projects will be developed to demonstrate the viability of the concept that projects involving the utilization of natural resources can be designed and operated in an ecologically sustainable manner and that they are capable of generating an acceptable rate of return to private investors in the long term.

By demonstrating the viability of this concept, OPIC hopes that the considerable resources of private investment capital, technology and expertise can be tapped for the substantial effort required to address environmental issues of urgent importance. These efforts include, for example, sustainable management and regeneration of tropical forests, range land restoration, replenishment of agricultural soils, better management of coastal resources (such as mangroves) and the generation of local revenues for conservation purposes.

Projects identified for potential fund investment will tend to be small in scale. Sectors which have a high potential for yielding eligible investments include natural ranching, mariculture/aquaculture, tree nurseries, cultivation of non-timber forest products, ecotourism, and renewable energy projects.

CONCLUSION

Over the past five years, I believe OPIC has successfully met its statutory mandates by providing financing to U.S. businesses for new or expansion ventures in the developing world. During this period, OPIC has fully utilized its direct lending and investment guaranty funding levels established by Congress. As commercial lenders increasingly retrench from Third World investment, the demand for OPIC financial assistance continues to grow and exceed program levels.

We request the Subcommittee's support for the new pilot equity program targeting the Caribbean Basin and sub-Saharan Africa. This initiative will complement our ongoing direct lending and guaranty programs, and the newly launched Africa Growth Fund, by mobilizing capital for investment and improving economic efficiencies, without increasing the burden of foreign debt on developing countries.

In summary, we believe the record attests to the success of OPIC's finance program. By providing a cost effective means of encouraging private investment in the Third World, OPIC finance projects yield both important host country developmental benefits and positive U.S. economic effects.

Thank you, Mr. Chairman. I would be pleased to answer any questions.

OPIC OPERATIONS IN CHINA

Senator LEAHY. Mr. Draggon, am I correct that OPIC operates only in countries where human rights are respected and fundamental freedoms are observed? Is that sort of a basic tenet for OPIC?

Mr. DRAGGON. Mr. Chairman, by statute we must have explicit approval by the State Department on every project that we support on human rights grounds.

Senator LEAHY. Is that the case in China today? If there is a government policy of political repression and use of military force against the people—and you can't turn on the TV for more than 5 minutes without seeing that that is precisely what is happening—can you continue to operate in China?

Mr. DRAGGON. In answering that, perhaps it would be useful if I review very quickly OPIC's programs in China and then launch into that answer.

Senator LEAHY. No; I understand the programs in China. Does it violate—can you operate? Let's put it this way. If you were asked today to start any of the programs you now have, would you be able to start them?

Mr. DRAGGON. For the purpose of operating our programs in China and any other country, we get our guidance from the State Department on such issues is the short answer. And, as Mr. Ryan before me indicated, the current stance is that the President would wish to cease military assistance but keep commercial ties with China at the current time. He'll take a wait and see attitude.

Senator LEAHY. You provide political risk insurance, including insurance against political violence, do you not?

Mr. DRAGGON. That's correct, sir.

Senator LEAHY. Do you expect to be facing any claims based on what is going on in China today?

Mr. DRAGGON. We currently have a portfolio of 29 projects located in 15 areas throughout China. It is too early to tell what the claims experience will be. All I can say is that they are well diversified throughout China.

Senator LEAHY. Parts of it could be in areas that are not even being affected by what is going on in Beijing, China.

Mr. DRAGGON. That's right. If I remember, there is only one project currently insured that is located in Beijing itself.

OPIC AND THE LOSS OF AMERICAN JOBS

Senator **Leahy**. Last fall I had asked your office to give me some information on the OPIC projects in a number of countries, including South Korea, Chile, Taiwan, Jordan, and others. The information you sent was very, very good. I appreciate it. It was just exactly what I wanted. It was clearly described, and I mention this because that is not always what happens with some agencies when I ask for such information. Usually, it is not what I asked for and it is not very clear. Yours was and I appreciate it.

Mr. **Draggon**. Thank you, Senator.

Senator **Leahy**. I asked for that information because of the criticism of OPIC's investment in activities by U.S. companies overseas which allegedly result in lost American jobs at home. It does make sense to me to see the United States help create jobs in developing countries. I think we have a whole catalog of reasons for that. But should we support oil drilling in the Middle East if our own oil and gas industry workers are out of work here, or is it really that black and white?

Mr. **Draggon**. First of all, in terms of the general criticism that OPIC exports jobs or supports projects that result in a loss of jobs in the United States, I am glad you asked the question because we would like to go on the record as saying we definitely do not support any projects that adversely affect U.S. employment. We study and screen each project that we support very carefully from that standpoint.

In terms of the kinds of projects OPIC supports, we believe that selective support of petroleum producing projects is highly developmental. To give you an example, in Bolivia last year we supported a project to develop petroleum reserves in Bolivia, the second poorest country in the Western hemisphere. That project is helping to produce jobs, foreign exchange, and self-sufficiency in terms of energy for that very poor country. In that sense, I think it is highly developmental.

Senator **Leahy**. GAO a couple years ago concluded your projects did, indeed, have a negative direct affect on domestic employment and they criticized OPIC's method of calculating the negative effects of a project. Then a separate evaluation by Arthur Young concluded just the opposite. So, where do we stand? Did you make some of the changes that GAO suggested or did you go on the Arthur Young study and say none were necessary?

Mr. **Draggon**. We have Dr. West on my left who is OPIC's vice president of development and is directly concerned with that issue. I would like him to address that.

Senator **Leahy**. Doctor?

Mr. **West**. Senator, subsequent to our official response to the GAO report that we made last year, we reexamined the various recommendations of the GAO, and in correspondence with our oversight committees, we informed them last fall that we have accepted the overwhelming majority of the GAO recommendations. We did so because we thought they would clarify a number of issues, and give Congress some comfort on them.

The one remaining area where we continue to have problems centers around an economic methodology issue which frankly is at the nub of the disagreement between the Arthur Young report you cited and the GAO report. That particular topic we are leaving to the incoming OPIC management to deal with because, frankly, in this transition period, it is difficult to make that kind of decision.

Ambassador Fred Zeder will have his confirmation hearing June 14, and we hope to have him aboard shortly thereafter. I expect he will be addressing that one major remaining issue. But the short answer is that we have accepted the overwhelming majority of the GAO recommendations.

OPIC'S SUSTAINABLE RESOURCE FUND

Senator **Leahy**. Your new sustainable resource fund is designed to get greater private sector involvement dealing with environmental problems and to show that ecologically sustainable programs can make money.

Does OPIC have a past record on the environment? I'm thinking of countries like South Korea whose laws are entirely different than ours are on the environment. Have you had any involvement with the environment there?

Mr. **Draggon**. Well, first of all, I think we have a very strong, positive record on supporting environmental concerns. Each project that we do is carefully screened in that regard. Again, that is our Office of Development under Gerald West that conducts those studies. So, I think our record is very positive in that sense.

I think the environmental fund is an extension of our record on the environment, and, recognizing we are in a unique position to involve the private sector in addressing environmental problems in the third world, it recognizes the concept that the private sector resources, including investment capital, management expertise, and technology, must be mobilized to effectively combat many of the environmental issues facing third world countries. It is part of OPIC's role as a private sector agency to help mobilize and act as a catalyst to encourage private sector involvement in environmental protection.

Senator **Leahy**. Do any of you have anything that you would like to add? I realize we could go on for hours here, but are there any points that you wish to make specifically with the committee?

FISCAL YEAR 1990 BUDGET REQUEST

Mr. **Draggon**. Thank you very much, Mr. Chairman.

Let me say that we recognize that this is our first time appearing before you. We have had and enjoyed the support of this committee in the past. We are here specifically today to respond to any questions you may have concerning the authority levels for our direct loan and our loan guarantee programs and our new equity program.

The levels that we are seeking under the fiscal year 1990 budget include $17 million for our direct loan program, $175 million for our loan guarantee facility, and $3 million for the new equity program. In that regard, I would like to say that in the last 4 fiscal years, we have fully utilized our authority. We feel that we have used it very effectively in terms of our developmental goals as well as U.S. effects, and we have done it on a self-sustaining basis. We hope the committee will give favorable consideration to the new budget.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. Thank you very much. You will find not only has this been a supportive committee, but I'm the easiest going guy around here. Just ask anybody.

Mr. **Draggon**. Thank you, Mr. Chairman.

Senator **Leahy**. I am sure there will be some further questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question: An issue of concern to Congress is that OPIC supports investment overseas in hotels, banking and tourist resorts. Why should we be using public funds to help Hilton Hotels and Citibank to do business abroad? OPIC is supposed to promote economic development in the Third World. Are these kinds of projects which cater to rich foreigners the kind of development we want to support?

Answer: OPIC-supported banking, hotel and tourist resort projects provide significant developmental benefits to host countries. Consider, for example, that OPIC-assisted projects in the banking, hotel and tourism sectors in FY 1986-88 will generate employment for over 9000 host country workers by the fifth year of operation.

Banking projects supported by OPIC provide much needed financial infrastructure to developing countries. These financial institutions increase the local availability of credit, and encourage investments in productive areas of developing economies. Also, many local workers employed by banking projects receive training in standard management techniques and technical skills. For example, almost two-thirds of the local workers employed by an OPIC-supported banking project in Argentina will receive training in investment management techniques. Without these skills, which often can be acquired only in foreign sponsored businesses like hotels and banks, economic development will continue to elude many countries.

OPIC-supported hotel and tourist resort projects promote development in host countries in several ways. Tourism projects, using a country's unique natural resources, create export earnings for many countries with few other resources (for example, Antigua and Jamaica). Tourism projects generate foreign exchange, employ local workers, transfer management skills, bring economic vitality to remote -- and frequently underdeveloped -- areas, improve infrastructure, and increase host government revenues. Moreover, tourism projects have multiplier effects upon the economy as a whole. For example, World Bank calculations for the Dominican Republic show that while 16,860 people owed their jobs directly to tourism in 1985, another 23,885 jobs had been generated indirectly as a result of tourist spending.

Therefore, because OPIC is -- first and foremost -- a development agency, and because these projects provide substantial benefits to developing economies, we believe that it is appropriate to continue, selectively, to support hotel, resort and banking projects.

Question: I am very interested in your new "sustainable resource fund," to get greater private sector involvement in dealing with environmental problems overseas. The goal is to demonstrate that ecologically sustainable projects can generate long-term profits. How will this fund work and what portion of OPIC's investments do you foresee for it in the future?

Answer: We are in the early stages of planning a "sustainable resource" fund, which will co-invest with private companies in LDC projects which will contribute to improvements in the host country ecology. We expect that the Fund will be privately owned and privately managed. OPIC's participation would be as guarantor and insurer, with each of the fund's investment decisions subject to OPIC's prior approval.

On the basis of preliminary research as to the market size, we estimate that the Fund could start with capital of $50 million to $100 million, an amount that could be prudently invested over an initial three- to four-year period and subsequently managed effectively.

Potential private investors in the Fund might include industrial and financial firms with interests in the sectors and countries involved in the Fund's projects, environmental organizations or managers of their endowments, foundations that support environmental organizations, and socially oriented investment funds. Support from public sector institutions may be sought to ease the organizational and administrative burden of establishing this fund and to share in the costs of implementing individual fund projects.

The fund would be capitalized in dollars, but investments in projects financed by the fund could take a variety of forms, including both hard and soft currencies, as well as in-kind contributions such as land, resource concessions, technology, and personnel. "Debt-for-equity" and other debt conversions would be utilized where feasible. Equity and debt investments by the fund would be used to leverage investments by other -- including local -- investors.

The management of this fund would be the responsibility of an organization experienced in international project and portfolio fund management. It will need to be highly qualified, since management would involve a major effort to identify, develop, and manage projects sometimes not normally considered feasible when measured against traditional investment criteria.

We have reviewed our concept for a "sustainable resource" fund with the leading not-for-profit environmental organizations and have begun the wider process of discussing it with some of the U.S. companies that we believe are interested in the objectives we have set for a fund of this kind. Based on these inquiries, we expect to be in a position within the next few months to decide the structure and size of the initiative.

Question: What is OPIC's past record on the environment in countries like South Korea which do not have the same kinds of laws to protect the environment as we do?

Answer: Given the lack of effective environmental regulation and enforcement in most developing countries, including South Korea, OPIC looks to international (e.g. World Bank) or U.S. standards when evaluating projects. Therefore, projects supported by OPIC are usually more environmentally sound than similar projects undertaken by indigenous or third country companies, especially since OPIC works with U.S. companies which are accustomed to meeting U.S. environmental and worker safety standards. OPIC clients are obliged to make appropriate representations regarding the environmental and worker safety precautions they will take and, in appropriate cases, OPIC imposes contractual conditions in its agreements in order for the company to obtain insurance or finance. These conditions reflect the requirements of those sections of OPIC's enabling legislation dealing with environmental concerns (Sections 231, 237 and 239 of the Foreign Assistance Act).

OPIC believes that it has fully complied with both the letter and the spirit of the environmental aspects of its legislation. OPIC examines each project for potential environmental and worker safety impacts. Approximately one-fifth of our projects require little analysis as they consist of services and businesses distributing products. Projects involving manufacturing, power generation and the development of natural resources are among the types of projects which receive close attention. Where necessary, the Corporation hires expert consultants to provide advice on particularly sensitive projects. In performing its analyses, the Corporation takes into account the technological sophistication and infrastructure of the host country. However, international and U.S. standards are used to evaluate projects, as opposed to local standards, since local standards are often non-existent. If standards are not met, OPIC will refuse its support of a project.

In those cases where OPIC believes a project is sensitive for environmental or safety reasons, OPIC notifies the appropriate host government authorities, pursuant to section 237, regarding the issues and applicable international or U.S. standards. Projects deemed environmentally sensitive are monitored by OPIC on an ongoing basis to ensure compliance with the terms on which OPIC agreed to support the project.

Question: Everyone wants to promote U.S. exports. Yet I understand you are requesting a decrease from $23 million to $17 million in OPIC's direct loan program. Why is this? If there is such a need for this support from U.S. companies overseas, and if it does as much for U.S. exports as you say, why this decrease? What impact would such a cut have on OPIC's programs?

Answer: Program budget restraints have affected virtually all federal agencies, and OPIC is no exception. Experience has demonstrated that user demand remains strong and OPIC resources are sufficient to permit OPIC responsibly and productively to carry out its Finance programs at the FY 1987 and FY 1988 funded levels of $23 million for the direct loan and $200 million for the loan guaranty program. However, the Administration is limiting overall budget outlays and credit obligations, as part of its efforts to reduce the deficit; therefore the request for FY 1990, which OPIC fully supports, is for somewhat lower levels.

The reduction in program levels will restrict the number of projects OPIC can support and will likewise have an impact on related exports of U.S. goods and services. We will meet the challenges this presents and will seek to utilize as efficiently as possible the direct lending levels approved by Congress.

Question: What role, if any, do you foresee for OPIC in the "Multilateral Assistance Initiative" in the Philippines?

Answer: OPIC supports the efforts that are currently being made by the U.S. Government and other donors to further democracy and economic restructuring in the Philippines. The Aquino government's broad commitment to reforms to establish sustained, broadly based economic growth led by the private sector should facilitate and encourage new foreign (including U.S.) investment. The Corporation stands ready to assist these future investments through its regular, ongoing programs.

As you know, the Multilateral Assistance Initiative is primarily focused on increased economic assistance, macroeconomic restructuring, and more efficient administration of this assistance to better reach the private sector in the Philippines. In light of the importance of the initiative, we expect that OPIC can and will play a supporting role. Although not a specific part of this latest initiative, OPIC's increased role in the Philippines was included as a part of the U.S.-Philippines Military Bases Agreement Review of October 1988. At that time President Reagan, in a letter to Philippines President Aquino, offered OPIC's best-efforts towards commitment of insurance coverage of $100 million of private investment projects and financial guaranties up to $50 million for private sector projects by September 30, 1991.

Question: I understand that last year you launched your "Africa Growth Fund" to support economic growth in sub-Saharan Africa. What progress have you made -- are U.S. companies interested in investing in that part of the world?

Answer: As you know, the Africa Growth Fund is a privately-owned, privately-managed limited partnership which will make equity and equity-like investments in new or expanding businesses in sub-Saharan Africa. The Fund's total authorized capital is $30 million, and to date $25 million has been committed or paid-in. The Fund was formally incorporated in Delaware on March 17, 1989.

Seven U.S. corporations, located in Texas, New York and Georgia serve as the Fund's Limited Partners. The first meeting of the owners was held on June 7, 1989.

The Fund's managers have begun to collect preliminary outlines of potential new projects. From these efforts, it appears that a high level of interest exists on the part of U.S. businesses in investing in sub-Saharan Africa. In one case, for instance, a Fund owner has asked the Fund to consider investing between $5 million and $10 million in five potential projects with a total capitalization of nearly $35 million. All of these projects could seek OPIC insurance and some may qualify for OPIC loans or loan guaranties as well.

These are potential projects which OPIC probably would not otherwise see -- projects that the sponsoring U.S. company would have foregone or at least postponed without the Fund and OPIC's involvement. With the Africa Growth Fund, these projects now become promising investments for the U.S. company and job-creating businesses for African development.

Question: Your 1988 annual report mentions an OPIC "investment mission" to southern Africa this year. Has that occurred?

Answer: In April of this year, OPIC led a very successful investment mission to the Southern African Development Coordination Conference (SADCC) region of Africa. The SADCC nations are Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe. The mission was a direct follow-on to a Southern Africa investment seminar which OPIC hosted in Washington in May, 1988.

The mission, which consisted of 27 U.S. investors representing 20 companies, was staged in Gaborone, Botswana and included official visits to Swaziland and Lesotho. In addition, officials from the other SADCC nations were invited to Gaborone to brief the mission participants on investment climates and opportunities in their respective countries.

Question: Do you have any investments planned for Mozambique? Although the security situation there is very bad, I know many Western companies are beginning to get involved and that our Ambassador there is trying to encourage U.S. investment.

Answer: Currently OPIC has provided insurance for one project in Mozambique involving mineral exploration. Two other companies have registered projects with OPIC, one for a rice operation and the other for a hardwood forestry project, but neither has actually gone ahead. OPIC has also met with officials from the government of Mozambique responsible for investment promotion to brief them on OPIC programs. OPIC has not financed any projects in Mozambique, but there are several applications which are currently under review. The current security situation seriously limits interest in investing in the country, however.

Question: What about Angola? American oil companies do a big business there. That's a country that could benefit from U.S. private investment. Have any U.S. companies come to you that want to do business there?

Answer: OPIC has not entered into a bilateral agreement with Angola, and therefore by law its programs cannot operate there. Hence, we do not have a record of applications by U.S. investors.

During the OPIC mission to Southern Africa earlier this year there was considerable interest in Angola expressed by some of the U.S. participants. If OPIC were to operate in Angola, it is expected that the strong interest of investors in the development of Angola's abundant mineral resources would create a considerable demand for OPIC services.

AFRICAN DEVELOPMENT FOUNDATION

STATEMENT OF LEONARD H. ROBINSON, JR., PRESIDENT

ACCOMPANIED BY PERCY WILSON, VICE PRESIDENT

DECLINED APPLICATIONS

Senator Leahy. Next we will hear from Mr. Leonard H. Robinson from the African Development Foundation.

Gentlemen, you have a hell of a task ahead of you. Every time I get a briefing book on Africa, I turn through all the pages trying to find the good news. There is none. Terrible climates, weak economies, repressive governments. There are interminable civil wars in which it seems that everybody wants to kill each other, and you wonder what in heaven's name is going to be accomplished by it. Millions of displaced people, locust plagues, terrible AIDS problems, exploding population growth, little help from us to do anything about that. The list goes on and on.

I know the type of projects you fund and they are very impressive. I am sure there is an unlimited need. If you would just give me a ball park figure. If you went through the grants or the applications for the grants, how many would you be apt to fund if you had the money. How many more applications could you actually fund?

Mr. Robinson. Well, Senator, first of all, let me say that both my vice president and I are ex-Peace Corps types, so we can handle it.

Senator Leahy. You're not going to put it on your own credit card, though. That's the problem. I know you can handle the work, but how can you handle the funding. What do you do about all the requests you get?

Mr. Robinson. We do have an unlimited number of requests that come in. We are averaging through the current fiscal year approximately 845 proposals. We probably turn down on an annual basis proposals totaling about $46 million. The demand from African heads of state, ministers, various government officials is overwhelming. In addition our own diplomatic corps are constantly sending letters and cables through the State Department requesting ADF come to Swaziland, Burundi, Chad, and Mauritania. So, we do have an overwhelming demand. And of course, as the Foundation's work in Africa continues to become more visible, the pressure increases even more so. But $46 million annually is about what we received in requests for assistance for the past 2 years.

AIDING EGYPT VERSUS OTHER AFRICAN NATIONS

Senator Leahy. I am told that you would like to get back into Egypt. And yet, I look at the enormous amounts of money we pour into Egypt as it is, and then I look at a country like Mozambique. I realize that one reason for that is that it is too dangerous to travel in many areas. But wouldn't it be more sensible for ADF to try to get into a place like Mozambique than to try to get into Egypt? I mean, you have truly finite resources. Why go to Egypt? Why not go to places that are far more important?

Mr. ROBINSON. We have extended an invitation to the government of Mozambique to begin negotiations with respect to an official accord between the Foundation and the government. As you may know, I was on an official mission in the previous administration to Mozambique in September of last year to look into the refugee situation in Mozambique and Malawi. After that mission, I did write a letter to Mozambique's Minister of Foreign Affairs with copies to various other ministers, indicating that ADF's board of directors had consented to allow me and my staff to begin the process of determining whether or not we could enter into Mozambique where the security problem is not apparent.

Senator LEAHY. What kind of response did you get?

Mr. ROBINSON. We have not received any response to date, and I assume on the basis of conversations I have had with Ambassador Ferrao that because of the resurgence of the Renamo forces in Mozambique and in Zimbabwe, that they simply are dealing with more important issues than the African Development Foundation.

Insofar as Egypt is concerned, we only have two projects in Egypt. Egypt represents one of the early countries for the Foundation. It is a country where I have had a great deal of personal development experience, and I know that we do have a very large, massive, if you will, aid program, but most of that aid does not trickle outside of Cairo or Alexandria. And in the rural areas of Egypt, little or none of that foreign aid has gotten to the people who are most affected by poverty. The project that we have funded in Egypt is a renewable energy project featuring solar power energy.

We are hoping that the government of Mozambique will come through with a response to my letter, which is outstanding some 6 months at this point, in the immediate future.

Senator LEAHY. Keep us posted if it does.

Mr. ROBINSON. I will.

MICROENTERPRISE LOANS

Senator LEAHY. We have discussions back and forth between Congress and AID over the appropriate size of microenterprise loans. Some say give $300 to five or fewer employees and so on. Others say give it to projects that employ more people. You have a project in Zambia, the Desai revolving loan fund——

Mr. ROBINSON. Yes.

Senator LEAHY [continuing]. Where local weavers are loaned $370 for groups of three weavers. That is about as micro I guess as you can get. What is your opinion? Do we narrowly define microenterprise? Should we target somewhat larger businesses with maybe 10, 12, 15 employees?

Mr. ROBINSON. I think we need to have a mix, Senator. The Foundation has funded a plethora of credit projects, revolving loan projects in just about every country that we operate in, which is 25.

The Desai weavers' project, is a small project; $14,000 is the cost of that entire grant over the past 3 to 4 years. But it is indicative of what can happen with a small amount of money. There are approximately 9 to 12 women involved in this weaving project. They were making little or no income prior to the Foundation providing them $14,000 a couple of years ago so that they could buy some weaving looms, wool, and dye so that they could diversify the colors of the rugs and mats and tablecloths and other things that they are making.

This project has been recently evaluated through the Foundation's resident evaluator structure, and the impact of this project has been rather incredible not only in terms of the demand for the products that the women are producing, but the income generated has enabled these ladies and their families to build for the first time permanent structures to live in, to put in piped water, to send their kids to school with clothes and shoes. It is just rather fantastic in terms of the visible impact of the project.

We have funded projects, credit programs, where less than $1,000 has been provided to women, women in particular who represent a very strong integral part of the informal sector throughout Africa in terms of private enterprise.

The Foundation is also about to conclude negotiations with the African Development Bank to set up a family credit training facility, probably in Senegal within the next year. This project will be a joint financial undertaking between the Foundation and the bank. My vice president, Percy Wilson, will be going out to Dakar and to Abidjan for discussions with bank officials in about a week or two.

This training facility will train disadvantaged entrepreneurs and would-be entrepreneurs in simple business management, inventory, stocking, bookkeeping, simple accounting, et cetera over a period of 6 weeks to 3 months. After they have graduated from the training program, those successful graduates will be provided a loan on a concessionary basis, and then they will be monitored for at least 1 year to make sure what they have learned in the training program is being used in a meaningful way.

PREPARED STATEMENT

So, the Foundation is quite serious about its commitment to providing capital to disadvantaged entrepreneurs. And as I indicated initially, I would favor a mix or a range of amounts of credit to be made available because there is something to be said for the medium to small size manufacturing companies that can generate a great deal of employment for the unemployed.

Senator **Leahy**. Thank you, sir. We will place your prepared statement in the record at this point.

[The information follows:]

STATEMENT OF LEONARD H. ROBINSON, JR.

I am pleased to appear before the Subcommittee on Foreign Operations to testify on behalf of the African Development Foundation's fiscal year 1990 budget request.

Mr. Chairman, the Foundation's congressional budget presentation requests an appropriation of $9 million for fiscal year 1990. This budget request is in response to the tremendous basic development needs in Africa and the need for the United States to undertake a more balanced approach to the delivery of development assistance by increasing its support for bottom-up development approaches which will increase the ability of African countries to take advantage of larger economic development assistance programs.

Mr. Chairman, ADF has been working directly with organizations in Africa for five years. To date, the Foundation has funded over 200 development projects and grassroots research initiatives in 25 African countries. During this relatively short period of time, we have been able to test out the tenets of ADF's enabling legislation -- that community-directed self-help development initiatives have a greater potential for sustainability, diffusion and positive economic impact than top-down or externally imposed development projects and strategies.

Development and the adaptation of new technologies is a slow process. As donors we tend to look for quick "fixes" to the needs of local people and sometimes we forget that the development pace must be determined by the community in order for initiatives to be accepted, realized and sustained. Life's demands on poor people do not take the form of "projects" that are fulfilled in specified western-style time frames. For disadvantaged Africans, life consists of the need to survive in a generally harsh environment, and daily priorities are determined by their access to food, water, shelter and income. We believe that in order for disadvantaged people to improve their economic and physical well-being, development resources must be placed directly in the hands of community groups.

Development programs which are targeted only at the top and at the middle of society are destined to fail without a skilled and healthy human infrastructure at the base of society. Given that over 80 percent of Africans live below the poverty level, it is imperative that we as donors understand and are willing to target our resources where there is the greatest gap: at the hands and feet of poor people, primarily village based, in Africa. "Structural adjustment," "economic policy reform", "human resource capacity building," and "sustainable agriculture" are only words and clever-catch phrases to the thousands of Africans who wake up each day concerned about how much clean water they will find, if they will be able to purchase enough food to feed their children, if they will have access to medical care if their child becomes sick, and whether continued drought will destroy their livestock and farms.

These are the real issues facing Africa's poor and we cannot afford to continue to talk in terms of Africa's debt crisis and structural adjustment unless we, as donors, understand the daily survival needs of the majority of African people, particularly women and children.

The Foundation's primary purpose is to enable grant recipients to generate income, increase food production, increase their access to clean water and household supplies, and increase their access to information and local technical assistance through the most economical means possible. After the grantee has developed an infrastructure capable of responding to their primary needs, it is ADF's responsibility to assist groups to become organizationally and economically self- reliant and to enable them to improve upon their basic development skills.

Mr. Chairman, Africa is poorer today in per capita terms than it was 30 years ago. Between 1979 and 1983, life expectancy declined in nine Sub-Saharan countries and primary school enrollment declined in 12 countries. One of the most critical development issues confronting African nations today is how to generate jobs and earnings for the vast majority of their populations. With annual population growth averaging 3.2 percent, Africa's population will double in 20 to 25 years making employment and productivity perhaps the most critical economic challenge facing the continent. The Foundation's development experience has shown that development resources targeted to increase the "comparative advantage" of rural people have the potential to help solve this critical problem.

Rural cottage industries which focus on import-substitution or "value added" productivity are at the cornerstone of successful rural development programs. The Youth Brigade Movement in Botswana, supported by ADF, which increases vocational skills in cement brick making, carpentry and in metal works has enabled many youth to become economically productive. The Brigades represent a good example of rural ingenuity to create local jobs and services and thereby eliminate the need for rural communities to import goods, services and skills. In Lesotho, local businesses are importing costly cement from South Africa when they have plentiful resources of sandstone which could be harvested by local communities and used for making cement blocks. Such local initiatives must be stimulated and supported in order to stimulate rural economies and improve rural competitiveness.

Also critical to addressing Africa's unemployment problem is the need for African governments and donors to recognize the economic strength and viability of informal sector enterprises. In light of the fact that structural adjustment measures frequently threaten to exacerbate the already fragile economic base of rural Africa, grossly affecting women and children, it is particularly important for donors to look for innovative mechanisms to stimulate the cash economy available to informal entrepreneurs, traders, market women and cooperatives.

The size and strength of the informal sector is rarely evident in African government statistics. According to the International Labor Organizations' (ILOs) statistics, family and personal savings across sub-Saharan Africa make up 70 to 90 percent of initial capital of informal sector entrepreneurs -- 70 percent in Kenya and 95 percent in Tanzania. In Sierra Leone, more than 98 percent of all enterprises employ fewer than five persons and in Ghana about 80 percent of workers are employed in the informal sector. The Foundation's funding program aims to directly stimulate the informal sector economies largely consistent of farming cooperatives, youth organizations, community service and women's groups, as well as entrepreneurs. Supporting these groups is targeted toward enhancing their basic skills and most importantly to increase their productivity through direct access to financial resources.

Mr. Chairman, supporting local self-directed development initiatives is not without its challenges. We have learned over the last five years that while rural communities have the capacity to identify their development priorities and they have some capacity to implement their development plans, rural communities need to increase their overall skills in fiscal and program management. In addition, we have recognized a human resource gap in appropriately trained technical assistance providers. Also, where such individuals exist, they lack the essential skill component required to transfer knowledge to project participants to ensure a lasting sustainability at the community level. Conversely, we have been able to identify numerous African development professionals who are trained in community organization and motivating skills. However, these individuals (who are essential in order to get a community started on a development plan) lack the technology related skills to maximize a program's success. ADF has struggled with this issue and we are actively promoting the transfer of technology and project management skills so that community members have the internal capacity to continue the development process well after funding and technical assistance providers leave the project site.

ADF funds have enabled poor people to have the capability to learn new skills in financial management and in administration of their own development initiatives. We believe that there are two essential components for community development success. First, there must already exist within the community some basic project related skills in order for development goals to be achieved. These skills can range from bookkeeping, conception of ideas, identification of problems and solutions, gardening, sewing, etc. Secondly, and perhaps most importantly, the community must clearly recognize that the end product from a development initiative can be the solution to their development needs.

Projects supported by the Foundation have ranged from increasing vegetable and cash crop production among disadvantaged rural farmers to food processing and livestock marketing enterprises, tailoring and small goods production, improved water resources and management, and consumer-based industries such as furniture manufacturing, construction materials and mechanized tools.

The following are illustrative examples of how local community groups and cooperatives have organized around a development goal to improve their economic potential.

ZIMBABWE

Furniture Manufacturing Project (1987)

Spring Cabinet Cooperative Society

$207,662

The Spring Cabinet Cooperative Society is an industrial cooperative that was established in September of 1986 by twelve unemployed carpenters who had lost their jobs because their employer (Spring Master, a large furniture manufacturing company) did not recognize Zimbabwe as a viable place to do business after independence. Each member of the cooperative is a head of household with an average family size of six individuals. The members decided to form the cooperative because of a growth spurt of new housing construction in Harare suburbs. The Society manufactures low cost furniture products from locally available timber while using their expertise as woodcraftsmen to satisfy a local market demand for products such as doors, beds, chairs, kitchen units, wardrobes, tables, and office furniture in new houses. With ADF funds, the Spring Cabinet Cooperative has constructed a workshop for its operations and purchased the necessary carpentry supplies (both hand and mechanized) to serve three densely-populated suburbs of Zimbabwe -- Kuwadzana, Warren Park and Dzivaresekwa -- representing over 300,000 people.

The cooperative has advertised itself and is now getting new orders for furniture every day. The cooperative determines its prices based on the costs of total materials and labor plus a profit margin of about 25 percent. This makes the cooperative's furniture quite competitive with both the informal sector producers and the larger companies. The cooperative is now earning over Zim $13,000 (US $6,000) in profit each month (the average annual income in Zimbabwe is US $740). The cooperative has made so much progress that the Zimbabwe Electricity Supply Authority is now providing electricity to the site and the cooperative hopes to begin to employ some of Zimbabwe's school leavers to help boost production and help reduce the unemployment problem. Income from sales will be reinvested in recurrent costs, particularly raw materials, general advertising of products and will also assist in the purchase or replacement of equipment.

NIGER

Tinga Ponds Project in Ouallam (1988)
US $210,032

The district of Ouallam is located in the northernmost area of Niamey Province, Niger. Arable land makes up only 11 percent of the total surface of the region and at present only 8 percent is exploited for food production. The grantee is the Ouallam Gardening Cooperative with a membership of 750 persons representing their respective households (three-fourths are women). These households are organized into work teams which represent various neighborhoods of Ouallam town.

The area surrounding Ouallam is semi-arid, practically void of vegetation and is affected by chronic food deficits. Rain-fed gardening, however, remains the major production activity of the people of Ouallam. The region has the potential to expand its agricultural production capacity and to allow for off-season cultivation because of the existence of several permanent and semi-permanent ponds, known as the Tinga Ponds. The Tinga Ponds stretch over two dozen kilometers and their development allows the people of Ouallam to increase their vegetable production in the off-season.

The goal of the project is to develop the community's capacity for food self-sufficiency, fight desertification in the region, and stop the rural exodus. The specific project objectives are to: create a permanent water supply for irrigation; create a more viable vegetable production cooperative; provide agricultural input and equipment to cooperative members; conserve those areas where the land has not yet been degraded by drought; and, establish and maintain a cooperative first aid center. ADF funds are being used by the Cooperative to: sink 60 shallow wells (not to exceed 15 meters in depth); provide irrigation and agricultural training to the cooperative members, increase vegetable production -- squash, melons, peppers, tomatoes, onions, etc; stabilize the large sand dune which surrounds the ponds with a grass hedge and wind breaks; and, train selected villagers to work in the first aid center.

The development of ground water basins for agricultural purposes is a high priority for the Government of Niger. Niger enjoys vast underground water reservoirs that could dramatically increase agricultural productivity if developed appropriately. ADF is facilitating the development of this important initiative and has supported three such basin development projects in rural areas.

LESOTHO

Migrant Labor Project (1988)

US $213,831

The Lesotho Catholic Bishops Conference (LCBC) was established in 1972 to address specific development needs of Lesotho. The migrant labor department of the LCBC was created in 1980 as part of the Commission for Health and Social Welfare -- it works closely with the Ministry of Labor, Mine Labor Organizations and the Christian Council of Lesotho.

The goal of the project is to educate young migrant laborers about alternatives to employment in South Africa's mines by creating an integrated program of skill training and community-based income generating projects that will lead to increased job opportunities, investments in rural areas and a transfer of skills back to the villages.

The project provides training and business start-up support to 90 young men over a five-year time period. Skill training for two to three years is provided to the individuals selected by their parish communities at established vocational institutions in Lesotho -- such as the Lesotho Agricultural College; Leribe Craft Center School; Lesotho Opportunities Industrialization Center; Lerotholi Technical Institute; and St. Elizabeth's Home Economics School. Upon graduation from the vocational institutions, credit will be provided from the Lesotho Cooperative Credit Union to the students in order for them to apply their vocational skills to the start-up of their own business. It is expected that by the end of the five year time span, 90 individuals will have been trained in such fields as agriculture, animal husbandry, carpentry, mechanics, masonry, plumbing, tailoring and dressmaking at the various vocational institutes in Lesotho.

ADF is providing funds for the scholarship fund for the 90 trainees, technical assistance in management planning and market surveys, salary and travel costs for the project coordinator and business support officer. In addition, a vehicle will be purchased in the third year of the project for monitoring purposes.

TANZANIA

Makurima-Uraki Water Project (1988)

US $22,047

The Makurima Consumer Cooperative Society, registered with the government in 1974, was established to help community members to increase food production and food marketing. To date, the Society successfully operates a grinding mill, bakery, cooperative store, and restaurant. The average annual farm income in Makurima is approximately $180. All small farmers in the community are members of the cooperative.

The primary objective of the Makurima-Uraki Water Project is to supply the Uraki primary school children with clean drinking water. Currently, the children walk to a downstream water access which is approximately 2 kilometers from the school. Cholera and intestinal diseases are prevalent among the school children. The proposed pipeline will also provide residents along the pipeline with a water tap in order for them to have access to the water as well.

The major activities of the project include: (1) surveying the pipeline; (2) purchasing of materials; (3) construction of the reservoir; (4) digging the trench; (5) laying of the pipes; and, (6) testing the new system. The Cooperative has already received the water rights from the Government of Tanzania. The Cooperative will provide all the labor for the project and ADF funds are being used to purchase the materials and technical assistance.

Recent structural adjustment measures have forced the Government of Tanzania to curtail its support for water resource management and infrastructure development programs. As a result, the Foundation has received numerous requests for water resource management and development projects. At a minimum, this project enables this disadvantaged community to have regular access to clean water.

ZAMBIA

Desai Revolving Loan Fund Project (1985)
US $14,025

ADF funds were used by the Young Women's Christian Association Council of Zambia (YWCA) to set-up a revolving loan fund managed by the Lusaka Branch of YWCA to provide loans to individual weavers located in Desai, an area on the outskirts of Lusaka. Credit provided to the weavers have enabled them to purchase looms and other weaving equipment and to pay rent for their workshop space.

Loans totaling US $370 were provided to five groups of women (each consisting of three) to purchase looms, spinning wheels, other equipment and raw materials. The loans are to be paid back over a five year time period at 18 percent interest. Sixty percent of the women have no formal education and the majority are married with each having between 2 and 8 children. Their ages range from 20 to 53 years of age. Prior to receiving the loan from YWCA in 1985, the women had received training in weaving from YWCA.

In a recent evaluation of the project, YWCA reported a 99 percent repayment rate on the loans provided to the Desai weavers. In addition, the women had reported their income per month prior to receiving the loan was US $25 and that after starting their weaving enterprises they are now earning US $60 per month. Some of the women reported monthly income as high as US $80. The women are producing largely carpets and table mats and marketing them locally in Lusaka. The carpets sell for about US $25 and the table mats for approximately eighty cents. The evaluation indicates that from April 1986 to April 1988, the total value of products produced by the women was US $22,000.

Through this project, the women have not only been able to increase their monthly income, they have also been able to make some noticeable home improvements. Some of the women have been able to purchase beds, additional household cooking supplies and have been able to make some modest additions to their homes. Most importantly, the women have been able to afford the fee required to access the main water supply line in Lusaka, providing them with clean drinking water.

Profile of the FY'90 Development Program

The Foundation plans to fund approximately 75 new development grants in fiscal year 1990 obligating $6,390,000 of its budget to support development programs in Africa. Of this amount, approximately $5.2 million will directly support the development initiatives of Africans living at the base of society, and approximately $708,000 will be obligated to support action research and project evaluations.

Also, in fiscal year 1990 the Foundation plans to support two conferences -- a nomads/herders conference and a small-enterprise credit conference -- to be held in Africa with ADF grantees. The nomads/herders conference is designed to promote communication and to facilitate the exchange of experiences and development aspirations among herders and nomadic people of Mali, Niger, Senegal, Somalia and Tanzania. The conference anticipates to generate specific ideas from the participants on how to solve major problems affecting nomads such as the need for nomads to engage in agro-pastoral productivity, illiteracy, environmental degradation, and poor nutrition and health. As nomads and herders become increasingly critical in the Sahel's development process their ability to organize and communicate their needs to their governments and outside donors is essential. African government officials will also participate in the conference proceedings.

In addition, the Foundation plans to hold a learning and problem-solving conference for ADF grantees on credit programs which focus on agriculture and small enterprise development. This conference will assist grantees to share information and learn new skills in credit administration and management, the sustainability of credit programs, and the socio-economic impact of credit on rural communities and individual recipients.

Sahel Region

ADF is operational in three countries in the Sahel -- Mali, Niger and Senegal -- and has operating level agreements with all three governments. The Foundation plans to obligate a minimum of $872,000 in the region in fiscal year 1990. By the end of fiscal year 1988, the Foundation had funded 9 development projects in Mali, 19 projects in Niger, and 11 projects in Senegal.

There is little sectoral diversity within this region. Most applicants continue to request assistance for projects that address water management, food production and the development of indigenous technical assistance organizations and service providers. These are consistent with the national development plans of their governments.

West Africa (I)

ADF's West Africa I region consists of five countries -- Cape Verde, Sao Tome and Principe, Liberia, Sierra Leone and Guinea. ADF is active in three of the five countries (Liberia, Sierra Leone, Guinea) and has operating level agreements with each government in the region with the exception of Liberia. The region is diverse linguistically, culturally and historically. The Portuguese speaking island countries of Cape Verde and Sao Tome and Principe are both recently independent, isolated countries with special development challenges. These two countries contrast with mineral rich English speaking Liberia and Sierra Leone and the French speaking People's Republic of Guinea. However, all of these countries share similar problems of poorly developed human resources and infrastructures and a dependency on foreign imports of food and consumer goods.

The Foundation plans to obligate a minimum of $872,000 in the region in fiscal year 1990. By the end of fiscal year 1988, the Foundation had funded 3 projects in Liberia, 4 projects in Sierra Leone, and 2 projects in Guinea. Supporting projects in Cape Verde and Sao Tome and Principe will be a major focus of the region in fiscal years 1989 and 1990.

West Africa (II)

ADF's West Africa II region consists of three countries -- Ghana, Benin and Togo. ADF is active in all three countries and has operating level agreements with each government. Recent economic realities have forced Ghana and Benin, in particular, to re-examine the efficacy of State owned enterprises and has resulted in a transferring of State owned enterprises to the private sector.

The Foundation plans to obligate a minimum of $872,000 in the region in fiscal year 1990. By the end of fiscal year 1988, the Foundation had funded 4 projects in Ghana, 5 projects in Benin and 8 projects in Togo. Supporting projects in Ghana and Benin will be of primary focus in fiscal year 1990.

Central Africa

ADF's Central Africa region consists of three countries -- Cameroon, The Congo and Rwanda. ADF is active in all three countries. All three countries are pursuing development policies which aim to strengthen initiatives from the private sector.

The Foundation plans to obligate a minimum of $872,000 in the region in fiscal year 1990. By the end of fiscal year 1988, the Foundation had funded 6 projects in the Cameroon, 1 project in The Congo, and 4 projects in Rwanda. Supporting projects in The Congo and Rwanda will be a major focus in fiscal years 1989 and 1990.

East Africa

ADF's East Africa region consists of four countries -- Egypt, Kenya, Somalia and Tanzania. ADF is active in all four countries and has operating level agreements with Tanzania and Somalia. ADF will continue to support programs in water supply and management, basic food and animal production and small enterprise development.

The Foundation plans to obligate a minimum of $872,000 in the region in fiscal year 1990. By the end of fiscal year 1988, the Foundation had funded one project in Egypt, 14 projects in Kenya, 4 projects in Somalia and 10 projects in Tanzania. Supporting an increased number of development projects in Tanzania and Somalia will be a major focus in fiscal years 1989 and 1990.

Southern Africa

ADF's Southern Africa region consists of four countries -- Botswana, Lesotho, Zambia and Zimbabwe. ADF is active in all four countries and has operating level agreements with two countries (Lesotho and Zimbabwe). Political, economic and security factors internally, and among the frontline states, shape the social and survival realities for those living in the region. ADF remains sensitive to the regional development needs of the frontline states and is supporting grassroots development activities which enhance both local and regional independence from the Republic of South Africa.

With the promotion of self-reliance, development projects emphasizing skill training and employment creation, agricultural production, rural industry and credit are of utmost importance and priority. The ADF applicant profile continues to be comprised of male youth/school leavers, women, the disabled and those involved in resettlement programs.

The Foundation plans to obligate a minimum of $872,000 in the region in fiscal year 1990. By the end of fiscal year 1988, the Foundation had funded 8 projects in Botswana, 9 projects in Lesotho, 6 projects in Zambia and 18 projects in Zimbabwe. Supporting projects in Zambia, Botswana and Lesotho will be a major focus in fiscal years 1989 and 1990.

PROGRAM SUPPORT IN FY'90

The Foundation's program support budget for fiscal year 1990 is $2,610,000. This figure represents twenty-nine percent of the Foundation's total budget.

How ADF Is Strengthening Its Operations

Staff Training

Based on recommendations made by the Office of Technology Assessment (OTA) that the Foundation needs to sharpen staff skills in the pre-funding analysis of project proposals (in the areas of appropriate technology choices, environmental issues and in economic and technical analysis of projects), ADF is giving priority attention to staff training in fiscal years 1989 and 1990. Training has begun in fiscal year 1989 for the Washington-based staff in the following areas: enhanced analytical skills involving the economic and technical viability of project proposals; environmental impact orientation; community participation and participatory evaluation techniques; and, alternative technology choices such as renewable agriculture and energy technologies. In FY'90, training in the areas previously mentioned will be provided to ADF's African Country Liaison Officers.

In FY'88, the Foundation conducted its first staff training seminar with a workshop on renewable energy technologies. Staff were briefed on state-of-the-art wind, solar, biogas and hydro-power technologies and their applications in Africa.

Monitoring and Field Staff Responsibilities

Based on both the recommendation of the Office of Technology Assessment (OTA) and ADF's own assessment of its field-based operations, beginning in fiscal year 1989 and fully operational in 1990, ADF will increase the responsibilities of its African Country Liaison Officers (CLOs), who are currently providing technical assistance support to ADF's grantees through cooperative agreements, to include proposal screening and preliminary analysis of project proposals. It will be their responsibility to determine which proposals merit an on-site analysis for verification purposes or to provide guidance to applicants as to additional information required to thoroughly evaluate their project proposals. Sectoral guidelines for sustainability will assist the CLOs to screen and assess applicant proposals.

All African Country Liaison Officers will continue to submit quarterly reports to the Regional Managers in Washington which detail project monitoring activities and provide information on the number of inquiries received, follow-up action taken and a listing of all proposals reviewed.

In closing, Mr. Chairman, I would like to point out the following:

First, the people of Africa deserve every opportunity to participate in development activities which directly impact their economic well-being. And, that the end result of community directed development initiatives can in fact substantially improve their living conditions and enable Africa's poor to move to another step in the development process. The American people deserve the greatest return on their dollars invested in overseas development and we are convinced that projects which provide the opportunity for the poor to be directly engaged in their own development, and that projects which involve African experts as technical assistance providers to the poor, and the utilization of African expertise in accounting and project evaluation, grants the American taxpayer the greatest economic return on dollars invested.

Mr. Chairman, we know that the infrastructure exists at the village level in Africa to absorb direct funding assistance. We know that the commitment exists at the rural village level in Africa to implement development initiatives and to ensure the success of initiatives undertaken. We know that the knowledge base exists in Africa to carry out village based needs assessments and we also know that African villages are willing to receive help from African experts. We also know that, by and large, African governments are not opposed to allowing Africa's poor at the village level to participate in an autonomous fashion in their own development process. In this regard, we also know that $250,000, $50,000 or $20,000 strategically placed renders a greater result than $10 million poorly placed at the macro-level in anticipation that through the maize of bureaucracy that the poor will derive a direct benefit from this assistance. Therefore, Mr. Chairman and Members of the Subcommittee, we urge you to continue your support for development initiatives which create and stimulate growth at the base of African society in order for the majority of Africa's population to take advantage of large macro development initiatives.

Thank you and I would be happy to answer any questions you may have.

MAKEUP OF FOUNDATION BOARD

Senator LEAHY. I would like to point out one other thing. I wouldn't want this committee to be made up of all Democrats or all Republicans. I understand that on your board all the seats are filled by Republicans. Please pass on a message from me—so that you do not have to get caught telling your board what to do—that their credibility as a board before this committee would be enhanced by whatever it does to at least make a stab at bipartisanship, at least as long as it raises itself above a bit of tokenism.

Mr. ROBINSON. Senator, I would be pleased to take that message back. You should know that I have been on record as the president of the foundation for the past 5 years as being supportive of a bipartisan board. That message has been carried to the board. The board is supportive also. I think that the real work has to be done with the White House.

Senator LEAHY. I understand, and I knew you agreed with me on that one. But I thought it would make your job easier and maybe you could go back and say the guy with the purse strings is the one suggesting it.

Mr. ROBINSON. I understand you very well, Senator.

Senator LEAHY. Thank you both, gentlemen. I appreciate your being here.

ADDITIONAL COMMITTEE QUESTIONS

I have some other questions on environmental issues, and I will submit them for the record——

Mr. ROBINSON. Fine

Senator LEAHY [continuing]. Because I'm afraid the administration briefing has already started. I have been handed three notes already that I am now 20 minutes late to it.

Mr. ROBINSON. Thank you. I look forward to working with you.

Senator LEAHY. Thank you. I do too.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Leahy: Last year this Subcommittee encouraged the ADF and representatives of the renewable energy industry, to seek areas in which they could jointly promote the use of this technology in your projects. Several weeks ago I chaired a joint hearing of this Subcommittee and the Agriculture Committee on the problem of global warming. One witness testified about how vulnerable the staple crops in some of the African countries are to slight rises in temperature. What has become of these efforts? Are you able to use renewable energy systems in your projects, and with what success?

Robinson: ADF is actively searching for local initiatives which involve natural resource conservation, efficiency energy use, and renewable energy resources. The problem the Foundation has encountered is a lack of local knowledge and availability of renewable technologies that can be applied effectively at the rural village level. Africa lacks a readily available cadre of energy technicians conversant in state of the art alternative energy technologies. Where these technicians exist, there are insufficient and in most cases, no local manufacturers of such technology. The acquisition of photovoltaic panels, wind turbines and biogas digestors can be a costly and lengthy endeavor for a rural village. It is important to note, however, that with respect to biogas digestors, the Foundation is now receiving an increasing number of projects which have a biofuel generation component. Recently, ADF supported three projects which involve the local manufacturing of biogas digestors for rural use. However, even with these difficulties, the Foundation believes the use of renewable energy technologies is critical for Africa's long-term development. The Foundation supports the Subcommittee's suggestion for collaboration with the U.S. renewable energy industry and will be seeking ways this year to share information and collaborate more closely with this sector in a manner that preserves ADF's mandate to foster local participation and project control to its African beneficiaries.

Leahy: As you know, countries that receive World Bank and IMF loans are required to undertake "structural" economic reforms -- devalue currency, reduce government spending, privatize state-owned companies, etc. This has reportedly caused hardship for many of the poorest people as the cost of social services has risen and the value of their currency has fallen. Has ADF seen this in Africa? What impact has it had on your development efforts? What can be done to reduce this harmful impact on the poor?

Robinson: ADF funded projects have experienced the impact of structural adjustment reforms in the participating African countries. We have seen an increasing marginalization of rural communities and the historically disadvantaged (Nomads, women, children and the urban poor). Structural adjustment has made Africa's development more complex with the increasing number of "newly disadvantaged" people who are without jobs and income to meet the rising cost of food and household supplies. These people, largely consisting of civil service workers who have lost their jobs under the government's restructuring agreements, are seeking scarce donor resources in order to undertake "grassroots" development projects. The dilemma that donors are faced with is how to distinguish between these groups of people and to determine how to best allocate donor resources to the most "needy" under these circumstances. Unfortunately this is not an easy task given the large extended families that exist in Africa. Another area where the Foundation has clearly seen structural adjustment's impact, is in agricultural production and access to parastatal services. Farming cooperatives, particularly those in the Sahel, have relied heavily on tractor hire, trucking and marketing services made available through agricultural parastatals. Since the rapid and sometimes un-announced dismantling of such parastatals, farming cooperatives find themselves lest apt to harvest and market their products. As a result, ADF has received numerous proposals from agricultural cooperatives requesting tractors, trailers, pick-up trucks and other farming equipment. Also, with the continuing devaluation of local currencies, project costs have sharply risen as well the availability of development inputs and services have been subsequently even further reduced.

In order for donors to reduce the negative impact of structural adjustment on the poor, donors need to fully understand and define the development gaps in countries undertaking structural adjustment reforms. Donors should encourage an implementation time schedule for dismantling parastatal development services that gives sufficient notice to farmers and private sector entrepreneurs in order to take the appropriate measures for ensuring a regular harvest and marketing of products. In addition, donors should encourage the newly disadvantaged to use their expertise and experience to become development service providers and technicians to traditionally disadvantaged people. Donors should also reduce their dependence on expatriates to provide technical advice and rely more heavily on indigenous experts for such development purposes.

Leahy: The language of the FY'89 Foreign Operations bill suggests that a renewable energy conference be held in Africa. Was such a conference ever held? If not, could you explain the reasons why?

Robinson: The suggested renewable energy conference has not yet been held in Africa. The Foundation does anticipate holding such a conference after it has completed the training of ADF's staff on the applications of renewable energy technologies in rural communities. We feel that in order to implement the suggested conference, that ADF staff needed to become more conversant and knowledgeable with the possible use of renewable technologies in projects supported by the Foundation. In fiscal year 1989, ADF did complete training for its Washington-based staff on renewable energy technologies. In fiscal year 1990, the Foundation anticipates conducting another such training session for ADF's African country liaison representatives and technical assistance providers.

Leahy: It is my understanding that as a regular course of business you do not conduct Environmental Impact Statements. Could you tell me why?

Robinson: At the time of the Office of Technology Assessment's (OTA) report on ADF's funding program, we did not have in place the mechanisms for conducting feasibility studies or environmental impact surveys as a regular course of business. However, in the latter part of FY'88 and in FY'89, ADF has implemented a "planning grant" strategy that enables ADF to quickly conduct a feasibility study and/or environmental impact survey. With the use of planning grants, ADF can quickly identify and disburse funds to an identified African expert to meet with applicants to discuss and analyze their project plans. If the survey results in a negative impact on the environment or any other sector, then ADF will not consider further funding of the project.

INTER-AMERICAN FOUNDATION

STATEMENT OF DEBORAH SZEKELY, PRESIDENT

OPENING COMMENTS

Senator **Leahy**. Finally, today, we will hear from Deborah Szekely, President, Inter-American Foundation.

Ms. Szekely, if you could come on up here. I want to tell you how much I have enjoyed reading your testimony, also how much I have admired your tenure. You deserve praise from all of us in that regard.

I have actually been a strong supporter of the Inter-American Foundation since the beginning. I have always felt our aid is best spent if it supports local initiatives. You have certainly shown that. You have done it with a very, very small budget, and you deserve the thanks of all of us for that.

In fiscal year 1988, you made 203 grants and then 173 grant supplements to organizations in Latin America and the Caribbean. How many applications did you have to reject that you would have fulfilled if you had had the money?

NUMBERS OF PROPOSALS RECEIVED, REJECTED, AND ACCEPTED

Ms. **Szekely**. First, thank you for those lovely comments.

We get roughly 10 times more requests than we can fill, but some are rejected out of hand. We actually fund one out of seven that we really take into consideration. Part of it, of course, is that we do pick the proposals that have the most innovative ingredients, that will train the most trainers, and that will help indigenous concerned citizens stimulate the self-help efforts of the poor.

ESPERANÇA IN BRAZIL

Senator **Leahy**. You made mention of Esperança in your prepared statement. Does that involve American doctors?

Ms. **Szekely**. Yes; they provide services without pay. And I visited the project in Brazil about 4 months ago.

Senator **Leahy**. What did you think of it?

Ms. **Szekely**. It is fantastic. The local paramedics prepare the people for surgery or dentistry, whatever is needed. There were two teams functioning when we were there, a dental team and a plastic surgery team. The dental team actually does one patient every 20 minutes. All the pre-op, everything is done for them, and the doctors work 8, 9 hours. They were actually high with enthusiasm. The level of enthusiasm of the doctors was very, very impressive.

I visited Esperança because we fund a number of paramedic programs, some of which are not as good as theirs in this concept of training the trainers. They have set up a branch in Bolivia, where Spanish is spoken instead of Portuguese. I hope to stimulate them to establish a training institute for paramedics for the rest of Latin America. They have an excellent program.

IAF PROGRAMS IN NICARAGUA

Senator **Leahy**. What about the programs you support in Nicaragua? What kind of projects are those? And what kind of difficulties, if any, have you had with the government?

Ms. **Szekely**. One, we have had no problems with the government. We have been supporting cooperatives with wells. They need water. The problems have been inflation and the difficulty of getting the electric line, the difficulty in getting the right pumps. So, they are slow, but we hope they will come on line soon.

I visited Nicaragua just about 1 year ago. Actually I was there on the 4th of July. And the government is so busy with their own things, they really don't worry, at least on the surface, about the cooperatives where we have been able to work.

THE INTER-AMERICAN FOUNDATION AND PANAMA

Senator **Leahy**. What about Panama?

Ms. **Szekely**. We have a good size program. I leave for Costa Rica in 10 days, and I was also going to visit Panama. But the State Department says the Panamanian government will not issue any visas at this moment.

We have an In-Country Service team that is helping us there and we have about 20 grants in Panama mainly helping agricultural suppliers, people who grow or process or market. The help really reaches the poorest of the poor, enables them to get loans for seeds, irrigation systems, et cetera. We are really working on the basics. Most of our work there has been in the agricultural area, rural area.

SUPPORT FOR LEGAL ASSISTANCE

Senator **Leahy**. You say you fund projects in legal assistance. What does that mean?

Ms. **Szekely**. Titling of land is something in which Latin America is so incredibly behind. We really ought to have teams come and see how well we have done in our country. The Indians cannot get ahead if they do not own the land. And then along come squatters. Now, if they are wealthy people and squatters come along, they can do something about it because they own the land, but we are talking about Indians who have lived on the land for generations—people just take up whole corners of land. So, what we do primarily in legal assistance is assist people in obtaining documentation for their lands.

PREPARED STATEMENT

In Argentina in the Chaco, we had to provide a large sum of money for fencing because one cannot obtain a title if lands are not fenced. One might say, well, why spend all that money on fences, that is what I bitched about, when I learned they won't get the title to their land. So, I said, OK, fencing.

[The statement follows:]

STATEMENT OF DEBORAH SZEKELY

Introduction

Mr. Chairman, it is always a delight to appear before the Subcommittee on Foreign Operations to testify on behalf of the Inter-American Foundation.

The President has requested a Fiscal Year 1990 appropriation of $16.932 million for the Foundation. This sum would be combined with an estimated $14.068 million in Social Progress Trust Fund (SPTF) resources to yield a total budget of $31 million. Eighty-three percent of this sum, $25.6 million, will be used to support grassroots development in Latin America and the Caribbean. The remaining $5.4 million will be allocated for administrative expenses.

Today marks my fifth testimony. Your strong support has been a tremendous encouragement, and we are truly grateful. To serve as President of the Foundation has been an honor and a privilege. That our efforts have been successful is due to the hard work and dedication of the staff under the guidance of Program Vice President Steve Vetter and Learning and Dissemination Vice President Charlie Reilly. To these two men I owe much, for through their hard work, my dreams have become a reality. I would be remiss if I did not also acknowledge the contribution of our Board Chairman. His support has greatly facilitated everything we do.

Fiscal Year 1988 Program

During Fiscal Year 1988, the Foundation used its $29.7 million budget to assist grassroots development throughout Latin America and the Caribbean by supporting a growing network of private development, community-based organizations throughout the region. Two hundred three (203) grants and 173 grant supplements were made to worthy organizations - once again an increase in the number assisted. These gains were made possible by reducing the average size of two-year grants from $85,000 in 1987 to $72,000 in 1988. Today we work with more than 600 private organizations dedicated to assisting the poor of their country.

Since the Foundation responds to people's own intitiatives, our grants assists a wide range of needs limited only by the practical application of creative instincts and available funds. The Foundation also continues to support groups with plans for self-sustanining activities that generate income and create jobs. Forty-three percent of Fiscal Year 1988 grants supported food production and agricultural projects. Foundation funds were used primarily to improve crop production, marketing, and administration and leadership skills in small farmer organizations.

To complement the rural portfolio, small-scale enterprises received 23 percent of our program resources. Grants benefited operators of very small businesses - microentrepreneurs with minimal skills who were often recent migrants from rural areas and today form part of the growing informal urban labor force.

Twenty-four percent of program funds supported appropriate education and training programs, and as is our custom, training was included in the great majority of grants. Community services support absorbed seven percent of the funds. These grants focused on health, housing, and legal assistance. A small number of grants also supported cultural expression activities, primarily those sponsored by indigeneous ethnic groups.

Most importantly, our efforts to integrate grantmaking and learning and dissemination activities continue unabated. The

Foundation's learning plan is integrated into all grantmaking procedures, so that we may build on lessons learned, monitor development trends, and demonstrate the wisdom of our approach to other development agencies.

During Fiscal Year 1988, the Foundation's dissemination program continued to expand and included a substantial increase in publications on grassroots development issues. The Foundation's Annual Report was revised so that it joins our journal, Grassroots Development, to become part of a quarterly series of publications. The three award winning videos which we produced to examine grassroots development were widely used as a teaching supplement in U.S. and Latin American high school and college classrooms. The videos were also shown on television to a total estimated audience of more than two million.

The staff, who have some 300 years of combined grassroots development experience, made presentations to a broad array of institutions. These included the World Bank, the Inter-American Development Bank, the Agency for International Development, as well as many other U.S. development assistance agencies and Latin American, Caribbean, U.S. and European private voluntary organizations.

The Foundation's Role as a Learning Laboratory

Most importantly, the Foundation has expanded its role as a learning institution. Systems have been developed to draw upon the wealth of knowledge and useful ideas which Foundation-supported projects and studies have generated.

The Foundation has demonstrated that to make effective use of our limited resources, each project funded must build upon the experience gained from projects which preceded it. Otherwise, we would be merely one more channel, albeit a small and flexible one, through which U.S. development assistance can flow.

We concluded that the best way for the Foundation to remain a leader was by becoming a student again. This would be done by funding projects and groups from which we could gain new insight or knowledge about the key ingredients for successful self-help development. Thus, there is an increasing trend to make grants which add to our knowledge of sustainable development and long-term educational efforts.

We have developed a clearly defined learning agenda that enhances all aspects of grantmaking and provides the Foundation with the capacity to influence how others throughout the Hemisphere think about development. We are also engaged in a process to extract the most important lessons learned from each grant, compare the results, and reach objective conclusions about what works, what doesn't, and why this is so. Taken together, these actions amplify the value of each Foundation grant.

Today, most projects are visited quarterly. During the past five years, project monitoring reports have increased from 400 to 1,950 annually - almost a five-fold increase. While our small grants might directly assist a few thousand people at one time, careful monitoring combined with effective learning and dissemination now allow us to touch the lives of millions.

Networking and Training

We have found other ways to expand our reach. The Foundation has systematically increased its support for networking among grassroots groups. Networking allows organizations which may be geographically and socially isolated to share common experiences, renew their dedication, and learn directly from the success and failures of each other - yet another demonstration that many of the answers to the region's long-term development problems are best addressed by forging partnerships between local professionals and grassroots groups. Together, they have the potential to sustain gains made by the disenfranchised.

The Foundation has often linked its networking efforts to programs that "train the trainers" who teach grassroots groups how to make better use of their resources. I am particularly interested in this theme because our Hemispheric future is inextricably tied to how well we train those who educate. Moreover, projects that "train trainers" have the potential for geometric impact far beyond any other form of grassroots development.

To illustrate this point, I offer three examples of Foundation-supported initiatives which have combined networking and training in creative ways:

o Two years ago, I visited the Centro de Educación y Tecnología (CET) in Chile. CET does a superb job of training poor urban and rural community leaders to meet basic nutritional and housing needs through mastery of sustainable agricultural techniques in urban gardens and small rural spaces as well as simplified construction practices.

  CET received a special Foundation grant to train Foundation grantees from other countries in its unique methodology. By this year's end, CET will have trained 80 field-level experts from 27 grassroots support organizations (GSO) located in 12 Latin

American countries. Courses focus on organic food production, small-scale animal husbandry, and low-cost construction techniques. CET will also work with the GSO Executive Directors to evaluate the impact of this training on their own programs. Thus, 80 people who receive training will be able to share what they learn with thousands of others in their home communities.

o Last month I traveled to the Brazilian Amazon to visit the Fundacao Esperança, a private, non-profit organization which offers basic health care training to Brazil's remote Amazonian communities. Esperança has trained paramedics in diagnostic and basic health care techniques and helped establish them in their communities as the key to local health care services.

Recently, Esperança expanded to Bolivia. The Foundation will assist Esperança to conduct training courses for health care workers throughout the region and share its successful experiences with major training centers.

o The Instituto Centroamericano de Administración de Empresas (INCAE) is the graduate business school of Central America. The Foundation made a special grant to INCAE so that it could provide scholarships to the professional staff of grassroots support organizations in management, small business administration, marketing and accounting. INCAE's training program is based on the Harvard Business School case study method. However, INCAE goes one step further by requiring the students to write their own case studies.

> During the past three years, INCAE has used this Foundation grant to train hundreds of GSO managers from ... (names of countries). As a result of their training, the managers also assist small businessmen, agricultural cooperatives, and other grassroots groups to address their financial and management needs.

As these three projects illustrate, training, education, and networking can create the conditions under which substantial results can be achieved with modest resources. And a big plus: their enhanced sense of self-worth and accomplishment that such efforts instill in those who offer their help and those who benefit from it.

In-Country Support Services

The Foundation's In-Country Support ("ICS") systems play the pivotal role in harnessing the learning potential of each grant and facilitating grantee networking. Consisting of 24 teams of local professionals operating in 20 countries, the ICS also have helped grantees to deal effectively with their day-to-day problems. It is, I am told, the most important innovation of my tenure and one which will continue to shape the future work of the Foundation.

The ICS regularly visit projects to assure that grant funds are used responsibly, and to provide as required timely technical assistance in management techniques, financial administration, marketing, and evaluation methodologies. The ICS also assist the grantees in securing appropriate technical assistance and training in agronomy, non-formal education, small business development, and numerous other practical applications.

Communication among the ICS, Foundation staff, and grantees has resulted in substantially more accurate and timely information about the projects we support and has frequently helped to make the difference between project success and failure. For example, the Foundation has supported a project to relocate herds of alpacas from southern Peru to a mountain range north of Lima. Recently, a crisis developed when a number of alpaca became ill and several died. The campesino organization called the ICS office in Lima seeking help. The ICS team quickly contacted a veterinarian who was at the project site within two days. He determined that the alpacas were drinking stagnant pond water rather than fresh water flowing from mountain streams. He also discovered that the alpacas were grazing on pasture land that had been contaminated by other animals.

Based on the veterinarian's recommendations, the campesinos placed the alpacas in special pastures with access to a stream. Almost immediately, the sick alpacas began to recover, and no additional deaths have been reported.

Five years ago, this project could not have been saved from disaster because most campesinos in remote villages have little knowledge of or access to resources commonly available in major cities. The Foundation's ICS team provided these resources and did so quickly and efficiently. Thus, the alpacas recovered and so did the project.

The partnership between the Foundation and the ICS has helped to create a synergy of funding and learning that enables us to better respond to innovative proposals from emerging groups. With the ICS advantage, we are also better able to make a convincing case in our publications and public fora that funding grassroots development - based upon self-help community efforts, designed by those who perform the day-to-day work - is the most effective way the developed world can assist the poor in developing countries.

Contributions to Development by Foundation Fellows

I am particularly pleased to report on the growing impact of the Foundation's Grassroots Development Fellowship Program. Since 1974, the fellowship program has helped to prepare hundreds of students and professionals to contribute their technical and analytical skills to development in Latin America and the Caribbean. This expanding talent pool illustrates one significant way in which the Foundation carries out its Congressional mandate to "improve understanding among the peoples of the hemisphere."

We have found that Foundation fellows are increasingly in demand as evaluators, researchers and program activists within the development community. Many former Foundation fellows have been retained as consultants by the Agency for International Development to evaluate various programs. A former fellow from El Salvador has become one of the World Bank's leading experts on self-help housing for Latin America's poor.

Former Foundation fellows teaching at universities, ranging from the Massachusettes Institute of Technology to the University of California, have also helped to enrich academic programs by offering courses on grassroots development which were unavailable 15 years ago. We will continue to support research and learning efforts which link the grassroots projects we support with useful technical assistance and training.

Development is a Two-Way Street

During my travels as the Foundation's President, I have been greatly impressed by the resolve of poor people throughout Latin America and the Caribbean to address their problems in consonance with their own values and traditions. As we seek ways to help the disadvantaged in our own country, we should draw upon the learning that evolves from these efforts.

The Foundation has sponsored several initiatives which attempt to demonstrate that successful development moves along a "two-way street" which encourages continuing dialogue between citizens in developed and developing countries.

In one case, the Foundation supported a pioneering program in Bogatá, Colombia that works with delinquent and abandoned children to educate and train them in useful occupations. Recently, one of the teenage leaders traveled to Washington state to share his experiences with a center for troubled children in Seattle, this but one of several such instances.

The Foundation is also exploring with the Highland Center of New Market, Tennessee ways in which community-based, agricultural and rural development organizations can share their expertise with small farmer organizations in the United States. This "two-way street" running from South to North America will include practical information on appropriate technology, low-cost irrigation systems, natural fertilizers, and toxic wastes.

Looking Ahead to 1990

You have in hand a detailed presentation on the Foundation's Fiscal Year 1990 program. Therefore, I will only highlight a few select activities which will build upon the accomplishments of the past five years. These include:

- Increasing support to income and employment generation projects and assisting training and networking activities that support local development organizations' efforts to improve management, evaluation and planning techniques;

- Expanding the use of In-Country Funds to reach more poor who lack the means to qualify for commercial loans and are obliged to raise capital to support their enterprise at exorbitant interest rates. The small grants and loans made from the In-Country Funds average $3,000 in a single year. This support is used to obtain seeds, livestock, tools and equipment, raw materials, skills training, feasibility studies, and legal incorporation. During the past three years, the Foundation has funded ICF's totaling $2 million in 10 countries supporting 318 groups which have benefitted 29,100 people;

- Seeking out and supporting programs that "train the trainers" by strengthening the quality and outreach capability of service institutions that deliver educational, technical assistance, and credit support to those who work with their impoverished neighbors;

- Increasing ICS efforts to disseminate information in their own countries on grassroots development themes and lessons learned from Foundation grants. For example, our ICS team in Argentina now publishes a journal listing community organizations and cooperatives working in the informal sector which show how these collaborate with local municipalities;

- Broadening the scope of regional ICS conferences to identify and analyze significant grassroots development issues selected by the staff themselves. One such concerns small-scale coffee producers in half a dozen countries and seeks ways to maximize their participation in the negotiation of international coffee agreements as well as to study the interrelationship between micro-development and debt relief, and new opportunities for collaboration between local governments and non-governmental organizations;

- Sharing information on a global scale with public and private sector development agencies about the Foundation's methods for working with marginal groups and how this might be adapted to their programs as well as to those domestic programs which assist America's poor. Poverty is poverty. What works in one country can work in another when the appropriate cultural and social adjustments are made.

The Social Progress Trust Fund

The current Social Progress Trust Fund ("SPTF) Agreement between the United States Government and the Inter-American Development Bank provides the Foundation with $44.1 million in SPTF resources during 1989-1991. This represents the entire SPTF availability for this period and is approximately one-half of the total SPTF resources which were available during the preceding three years. This is to be expected as the Latin American countries have repaid almost all of this particular debt which was initiated in 1961 as part of the Alliance for Progress program.

The Foundation must now face the fact that after 1991 there will be substantially smaller amounts of SPTF currencies available. The Foundation's FY 1990 request reflects the Administration's commitment to offsetting the reduced SPTF funds with increased appropriated resources. We anticipate that future requests for appropriated funds will follow this approach. For it is important that the Foundation be able to maintain its program undiminished into the next decade and thus continue to build and reap the benefits from the 18 years of labor and $270 million which were invested in this unique organization.

Closing

I am honored to serve my country as the Foundation's President. I am honored to be part of the good work and good spirit which pervade the Inter-American Foundation. Most of all, I am committed to the idea articulated 20 years ago by Dante Fascell and Brad Morse that this Government needs a foreign assistance agency which can be a passport for learning and change. My efforts during the past five years have been guided by this fundamental principle.

As a funding agency, we can have only a limited impact on the great social and economic problems facing Latin America and the Caribbean. However, as a learning agency, we have the experience and the means to influence how the region's non-governmental organizations define their problems and seek their solutions. This is the Foundation's greatest strength and why your support is so essential.

Mr. Chairman, I would be pleased to answer any questions which you and your colleagues may have. Thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

Senator **Leahy**. I have some other questions for the record, and I will do just that. I will submit them for the record.

But again, I want to take just these extra few minutes just to state personally how much we all appreciate everything you have done.

Ms. **Szekely**. I have a wonderful staff. And actually the board has been very helpful, particularly the board chairman.

Senator **Leahy**. It is nice when they all work together.

Ms. **Szekely**. Thank you.

Senator **Leahy**. Thank you very much, ma'am.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question: What portion of the projects you support are self-sustaining? After your funds are used up, do the projects continue on their own steam?

Answer: When discussing self-sustaining projects, it is important to distinguish between grants made by the Foundation to: 1) organizations of the poor themselves; and 2) organizations that provide services to the poor.

Grants made to organizations of the poor, such as agricultural cooperatives, women's market groups, artisans, and fishermen, generally focus on a specific development need. For example, rice farmers receive support for a rice mill; women in the marketplace benefit from a revolving credit fund; fishermen purchase nets and outboard motors; and weavers use grant funds to purchase wool and dyes in bulk.

Once funded, such benefits continue to serve as an integral part of a grassroots organization's economic development. And, since an important component of our grants is some form of training, usually in management, accounting, and marketing, the groups thrive and membership increases.

Several visits are made during each year of the grant by local professionals of the Foundation's in-country support systems (ICS) who provide as needed assistance. Their efforts assure long-term success as well as careful stewardship of grant funds.

Therefore, the funding of a simple and specific project for a grassroots group becomes part of a process that is sustained long after the grant has terminated.

While, on the other hand, grants to organizations that provide services to the poor, private voluntary organizations (PVO's) are composed of professionals who have organized specifically to assist the development of the poor of their country. They provide services in skills training, technical assistance, management, marketing, credit, and education. Support for these PVOs usually includes funds for administrative costs, rent, salaries, transportation, and special training so that the local professionals can continue to improve and expand their programs.

To decrease the possibility of long-term dependency, the Foundation encourages these PVO's to raise funds within their community, as well as to seek funding from other donor agencies. The importance of local commitment is stressed at all times, for without such commitment no development effort is sustainable.

The Foundation has conducted several studies on the sustainability of development projects. The most recent one was by Professor Thomas Carroll of American University. His study of the long-term impact of Foundation funding in Peru determined that nearly 80% of the organizations funded by the Foundation since 1971 continue to function successfully despite severe social and economic problems.

In another analysis of projects funded by the Foundation in Brazil during 1971-77, it was determined that more than 90% of the organizations remained active in 1985, nearly ten years after all Foundation work in that country had terminated.

Question: You say that while your small grants directly aid a few thousand people, you have been able to extend that impact in ways which enable you to "touch the lives of millions." That's a pretty big claim. What do you mean? Do your projects really significantly affect that many people?

Answer: A major portion of the Foundation's grants in the past 18 years has supported training, marketing credit and education activities.

Although grants vary greatly in size, scope, and activity, the Foundation has estimated that there are about 100 direct beneficiaries per project, and some 500 indirect beneficiaries.

Since more than 3,000 projects have been supported by the Foundation, the cumulative figures indicate that our work has touched the lives of well over a million persons throughout Latin America and the Caribbean.

For example, the attached report (Attachment No. 1) on the Foundation-supported credit programs in Costa Rica, shows that more than 18,000 persons are members of rural entities, and about one-third of these (6,280) have taken advantage of these credit funds to date. Consider, then, a family of six, and one can readily see how our numbers are derived.

In addition, a soon-to-be-published book on Foundation activities with small farmers in Uruguay reflects even wider direct and indirect impact. In that country, the Foundation has granted more than $8 million to a number of PVO's between 1975 and 1985 to provide small farmers with access to equipment, training, technical assistance, credit, marketing, and education.

The PVO's served a network of rural development associations who represent nearly 45,000 family farmers comprised of about 250,000 persons.

To maximize the number of persons who can be reached with our limited resources, over 50% of Foundation funding supports a growing network of grassroots organizations and PVO's at both regional and national levels. That the Foundation works in every country of Latin America and the Caribbean, with the sole exception being Cuba, is important because cumulative learning is thus shared and groups throughout the hemisphere benefit from each development breakthrough.

The attached article on the Foundation's work in the Dominican Republic illustrates how these groups have proliferated and the ways in which benefits of Foundation support have extended to hundreds of thousands of Dominicans. (Attachment No. 2)

Question: What portion of the projects you support involve U.S. private voluntary organizations?

Answer: Less than 5% of the projects supported by the Foundation have U.S. PVO involvement.

The Foundation's unique role is to fund and learn from indigenous PVO's and grassroots groups and then to share these lessons with both national and international organizations.

Question: What portion of your grants involve matching funds? Do you encourage the communities or governments where you are working to share part of the cost of these projects?

Answer: We believe that local support and commitment is a prerequisite to the success of all development, thus most Foundation grants involve matching funds. During FY1988, for every dollar contributed by the Foundation, local organizations provided $1.26.

Question: I note that you have supported projects in Nicaragua and that you plan to continue to do so in FY 1990. What are these projects, and have you encountered any difficulties with the government?

Answer: Attached are the public statements for Foundation-supported projects in Nicaragua. The projects address basic human needs--mainly potable water and agricultural production--at the local community level. See Attachment No. 3.

To the Foundation's knowledge, grantees have experienced no difficulties with the government due to Foundation assistance. The Foundation has not experienced any difficulties with the Government of Nicaragua.

Question: What about Panama? Given the political unrest and the cut off of U.S. aid, do you still plan to support projects there next year?

Answer: Yes, the Foundation continues to support projects in Panama. Working closely with the Instituto de Investigación y Educación para el Desarrollo (INEDESA), a Panamanian development organization, the Foundation continues to support the training and credit efforts of a large group of peasant associations and producer groups that play a key role in food production and social services. (Attachment No. 4 includes the public statement for the INEDESA project in Panama.)

Question: I am interested in that you fund projects in legal assistance. What are these projects?

Answer: Historically, a small percentage (approximately 2%) of Foundation funding has been provided for legal assistance.

However, legal assistance is often included as a component of other types of programs receiving Foundation grants. Urban legal assistance programs which have received Foundation support usually provide counsel and training for low-income neighborhood organizations on land titling procedures and training of paralegals in the availability of social services so that they may better serve their poor.

Legal assistance programs have also helped microenterprises and cooperative organizations to obtain legal charters. In urban areas, land titling is of paramount importance to both the old-time residents and the new migrants, while in rural areas legal projects have helped farmer organizations to settle property disputes and obtain land titles, credit, and crop insurance.

ATTACHMENT NO. 1

Estado de los Fondos Rotativos de Crédito - Costa Rica
Mayo 1989

JUN 29 1989.

ORGANIZACION	FONDO ACTUAL F.I.A.	 OTRA FUENTE	# ASOCIADOS	# BENEFIC. DE CREDITO	# CREDITOS	MONTO / CREDITO	TIEMPO RECUPER.	TASA DE INTERES
COOPESANTI	$120.000		70	70	225	c 112.500 Prom	6 meses	18%
APISANTOS	20.000		55	32	32	30.000 Prom	2 Años	18%
ASOPROG	20.000		50	35	42	41.760 Prom	1 Año	18%
APPTA	12.121		120	--	--	3.000/há Máx.	3 Años	---
COOPEBAIRES	155.000		456	226	290	25.000 Prom	6 Meses	18%
ASOC.LOS LAGOS	25.000		25	17	17	77.000 Prom	1 Año	15%
ASOC.FINCA DOS	10.000		9	9	9	60.000 Prom	2 Años	12%
COOPEALIANZA	75.000		6.300	125	194	85.000 Prom	1 Año	14-17%
COOPESPARTA	42.000	$134.375	1.014	88	98	100.000 Prom	2 Años	24%
PROCERCOOP	32.200		43	30	27	35.000 Prom	5 Meses	18%
COOPELECO	80.000	50.000	3.200	119	117	41.160 Prom	7 Años	18%
APACO	6.300		48	5	5	25.000 Máx.	1 Año	25%
APAG	26.600		11 (1)	12	12	535.000 Máx.	5 Años	18%
ORCOOPES	69.050		8 (2)	3	3	250.000 Prom	3 Años	
COOPESGOLFITO	33.400		36	7	7	450.000 Prom	4 Años	23%
ADRI	12.700		17	2	2	50.000 Prom	1 Año	23%
ASC.SUB-REG.SN RAMON	10.000		31	729	729	450.000 Prom	4 Años	12-15%
CACH	25.250	237.500	175	58	58	40.000 Prom	12 Años	8%
FINCA	62.600	822.500	-- (3)	3.152	315	7.000 Prom	1 Año	15-18%
						120.000 Max.	5 Años	
CREDIMUJER		62.500	10	275	350	100.000 Prom	10 Meses	24%
ORDER	22.736		15	80	80	75.000 Prom	18 Meses	22%
AATPC	5.333		45	2	2	5.000 Prom	2 Meses	5-18%
ARSANCA	18.000		180	52	52	25.000 Prom	1 Año	18-20%
MONTE ROMO	6.000		30	30	28	10.000 Prom	1 Año	18%
A.P.P.RIO FRIO	20.000		33	33	4	270.000 Prom	1 Año	15%
ADICO	21.300		405	105	334	30.000 Max.	5 Meses	18%
COOPEBRISAS	55.000	145.000	405	223	425	50.000 Máx.	7 Meses	10%
COOPEVENECIA	220.000	562.500	5.200	350	164	90.000 Prom	2 Años	18%
ADAPTE		375.000	15	190	190	90.000 Prom	18 Meses	24%
I.C.F.	100.000		-- (4)			300.000 Prom	18 Meses	18%
APIAGOL	52.825	260.000	12	220	357	75.000 Prom	3 Años	22-36%
T O T A L E S:	$1.359.415	$2.649.375	18.018	6.280	4.171	c 108.981 (7)	28.2 Meses	

ORGANIZACION	T I P O	IN / CRED.	AREA GEOGRAFICA	RAMA ACTIVIDAD
COOPESANTI	COOPERATIVA	1965/1984	CERVANTES-OREAMUNO	AHORRO / CREDITO
APISANTOS	ASOCIACION	1981/1985	LOS SANTOS	APICULTURA
ASOPROG	ASOCIACION	1980/1986	SAN PEDRO TARRAZU	GRANADILLA
APPTA	ASOCIACION	1987/1989	ATLANTICA, TALAMANCA	NO TRADICIONALES
COOPEDAIRES	COOPERATIVA	1972/1982	CARTAGO - ESTE	PAPA - HORTALIZAS
LOS LAGOS	ASOCIACION	1986/1989	NORTE - LOS LAGOS	AGR.MARACUYA - PIÑA
FINCA DOS	ASOCIACION	1985/1987	RIO FRIO	LECHERIA
COOPEALIANZA	COOPERATIVA	1966/1987	EL GENERAL - SUR	COMERCIO - AHORRO - CREDITO AGROPECUARIO
COOPESPARTA	COOPERATIVA	1964/1986	ESPARZA - PACIFICO	CREDITO AGRICOLA
PROCERCOOP	COOPERATIVA	1986/1987	FRENTERA CON PANAMA	CERDOS
COOPELECO	COOPERATIVA	1979/1986	LOS SANTOS	CAFE - COMERCIO - FRUTALES
APACO	ASOCIACION	1979/1989	LOS SANTOS	COMERCIALIZACION-FRUTAS
APAG	ASOCIACION	1985/1987	GOLFITO	PESCA
ORCOOPES	FEDERACION	1987/1987	PACIFICO GUANACASTECO	PESCA
COOPESGOLFITO	COOPERATIVA	1974/1987	GOLFITO	PESCA
ADRI	ONG-ASOCIACION	1987/1989	PURISCAL	AGRICULTORES
ASOC.SUB-REG.S.RAMON	ONG-ASOCIACION	1982/1984	SN RAMON-NARANJO-PALMARES ALFARO RUIZ	AGRICULTORES - INDUSTRIA
CACH	CENTRO AGR.CANTONAL	1978/1985	HOJANCHA, GUANACASTE	AGRICULT.-REFORESTACION
FINCA	ONG - FUNDACION	1984/1985	SUR - ATLANTICA	PRODUCTIVOS EN GENERAL
CREDIMUJER	ONG - ASOCIACION	1984/1986	URBANA S.JOSE-HEREDIA	PEQUEÑA EMPRESA
ORDER	ONG - ASOCIACION	1985/1986	DESAMPARADOS	PEQUEÑA EMPRESA
AATPC	ONG - ASOCIACION	1982/1989	TODO EL PAIS	ARTESANIA
COOPEARSANCA	COOPERATIVA	1983/1986	ZONA NORTE	ARTESANIA
MUJERES MONTE ROMO	ASOCIACION	1985/1985	M.ROMO - GUANACASTE	PANADERIA-SODA-CAFE-GANADO-VIVERO-TRANSP.
P.P.RIO FRIO	ASOCIACION	1986/1987	RIO FRIO	PLATANO-ÑAME-PEJIBAYE JENJIBRE
ADICO	ASOCIACION DES.COM.	1974/1986	CIPRESES - OREAMUNO	PROD.TRADIC/NO TRADIC.
COOPEBRISAS	COOPERATIVA	1973/1986	ZARCERO-ALFARO RUIZ	AGRIC./INSUMOS AGRIC. COMERCIALIZACION
COOPEVENECIA	COOPERATIVA	1968/1982	NORTE	AGRIC/INSUMOS AGRICOL. COMERCIALIZACION
ADAPTE	ONG - ASOCIACION	1982/1984	URBANA	MICRO-EMPRESA
I.C.F.	CONVENIO COOPERATIVO	1987/1987	TODO EL PAIS	PROYECTOS GRUPALES
APIAGOL	ONG - ASOCIACION	1985/1988	GOLFITO - SUR	MICRO EMPRESAS

ORGANIZACION	CARACTERISTICAS ESPECIALES	CREDITO/INSUMOS	CREDITO/EFECTIVO	AS.TECNICA	DECISION/CRED.	TIPO GARANT
COOPESANTI	HORTALIZAS	INSUMOS	NO	PROPIA	COMITE	FID/PREND.
APISANTOS	REACONDICIONAR APIARIOS	PARTE	PARTE	MAG	COMITE	FID/PREND.
ASOPROG	MEJORAR Y TECNIFICAR GRANADILLAS	INSUMOS	NO	MAG	COMITE	FID/HIP.
APPTA	MEJORAS Y MANTENIMIENTO CACAO	INSUMOS	NO	PROPIA	COMITE	COSECHA
COOPEDAIRES	PAPA,HORTALIZAS Y NO TRADICIONALES	INSUMOS	NO	MAG	COMITE	FIDUC.
ASOC.LOS LAGOS	ASENTAMIENTO DEL IDA	NO	SI	INA/MAG	JUNTA DIRECT.	PREND/FID.
ASOC.FINCA DOS	ASOCIACION DE DESARROLLO,LECHEROS	NO	SI	INA	COMITE	PREND/FID.
COOPEALIANZA	GRANOS BASICOS-DIVERSIFICACION	PARCIAL	PARCIAL	CONTRATADA	COMITE	PREND/FID.
COOPESPARTA	GRANOS-DIVERSIFICACION-NO TRADIC.	NO	SI	MAG	COMITE	PREND/FID.
PROCERCOOP	ANIMALES,ALIMENTO,ALTERNABILIDAD,	INSUMOS/ALIM. ANIMAL	NO	PROPIA	COMISION	PRENDARIA
COOPELECO	PEQUEÑOS PRODUC.CAFE CON A.T.	INSUMOS	NO	PROPIA	COMITE	FID./LETRA
APACO	INSUMOS DE CREDITO AGRICULTURA AGROQUIMICOS	INSUMOS	INSUMOS	MAG	COMISION	FIDUCIARIA
APAG	PESCA/EQUIPO/REPARACION	NO	SI	CONTRATADA	COMITE	FID./PREND.
ORCOOPES	RECUPERA CREDITOS FIA-COOPERATIVAS DE PESCA	NO	SI	CPCA	COMITE	FID./PREND.
COOPESGOLFITO	PESCA	SI	CONTRA FACTURA	PROPIA	COMITE	PRENDARIO
ADRI	ONG - REGIONAL	ENTREG.FACT.	SI	PROPIA	JTA.DIRECTIVA	FIDUCIARIA
ASC.SUB-REG.SR	DIVERSIFICACION AGRICOLA	SI	NO	PROPIA	COMITE	HIP./PREND.
CACH	REFORESTACION PROCESAMIENTO DE MADERA	PARCIAL	PARCIAL	PROP./DGF	COMITE	FID./PREND. HIPOTECARIA
FINCA	CREDITO PROGRESIVO-AHORROS EDUC.PRODUC/EMPRESA PRIVADA	NO	SI	PROPIA	COMITE BANCO COMITE FINCA	FIDUCIARIA PRENDARIA
CREDIMUJER	MUJERES INDIVIDUAL Y GRUPAL-AREA URBANA	NO	SI CONTACTO/PROVEEDOR	PROPIA	ASORA COMITE	PRENDARIA
ORDER	ASOC.PRIVADA/MICRO EMPRESAS	SI	SI FACTURA PROF.	PROPIA	PROMOTOR/JTA. DIRECTIVA	LETRA CAMB.
AATPC	CAPACITACION-CREDITO ARTESANOS-PAGO CON PRODUCTO	SI	NO	PROPIA	COMITE	PREN./FID.
ARSANCA	ARTESANIAS	NO	SI	PROPIA	COMITE	FIDUCIARIA
MUJ.MONTE ROMO	MUJERES/PEQUEÑOS PROYECTOS	NO	SI	INA	COMITE	PRENDARIA
A.P.P.RIO FRIO	MUJERES/AGRIC.COMUNITARIA-4 SUBGRUPOS	NO	SI	MAG/IDA	JTA.DIRECTIVA	FIDUCIARIA
ADICO	DIVERSIFICACION AGRICOLA	SI	NO	MAG	COMITE	PRENDARIA
COOPEBRISAS	EFICIENCIA/SERVICIOS VARIOS	SI	NO	INA/JAPON	COMITE	FIDUCIARIA
COOPEVENECIA	EXTENSION/EFICIENCIA	SI	SI	PROPIA/MAG	COMISION	PREND/FID.
ADAPTE	URBANA-ONG-MICROEMPRESARIO	NO	SI	PROPIA	COMITE	FID./PREND.
I.C.F.	CONVENIO COOP. ADAPTE-FIA	NO	SI	PROPIA/ONG	COMITE	PRENDARIA
APIAGOL	ONG-REGIONAL-PEQ.EMPRESA	NO	SI	PROPIA	COMITE	FIDUCIARIA

ATTACHMENT NO. 2

BUILDING THE INFRASTRUCTURE FOR PROGRESS: PRIVATE DEVELOPMENT ORGANIZATIONS IN THE DOMINICAN REPUBLIC

The following special section focuses on the work of the Inter-American Foundation during its first 15 years. The lead article updates events since 1982, when Robert Mashek and Stephen Vetter concluded their monograph—*The Inter-American Foundation in the Dominican Republic: A Decade of Support for Local Development Institutions*—by cautioning that "the world recession poses a major challenge to the national institutional framework" of Dominican society. Despite unfavorable conditions, Dominican nongovernmental organizations have continued to grow and diversify. Here, Stephen Vetter draws on information from field visits, questionnaires, and previous project evaluations to show some of the reasons why.

STEPHEN VETTER

In 1961, the figure of one man—Rafael Trujillo—dominated the Dominican political, social, and economic landscapes. Today, just 25 years later, a resilient network of private organizations has emerged and is working actively with public agencies to improve the lives and the productive capacities of the nation's poor and to lay the foundation for an enduring democracy. Over 140 legally registered groups are sponsoring a variety of efforts—from rural credit programs, to technical assistance for small businesses in the informal economy, to pre- and post-literacy campaigns, to health and housing programs. And this is only the tip of the iceberg. A 1977 study by the Secretary of Agriculture identified 1,116 informal associations of small farmers that had formed to share labor and jointly market and process their crops. Recent estimates indicate the number of unregistered grassroots associations has doubled and now includes groups of small businessmen, women, and unemployed youths.

This burgeoning growth has been fostered by the general consensus among private, church, and public agencies about the importance of developing human and organizational resources to learn new skills and increase productive activities. There is a common interest in experimenting with new ideas, a bounty of organizations among the rural and urban poor to test them, and a willingness to share information about what does and does not work. The mass media actively promote sound development initiatives; and private development organizations, which have often introduced the most innovative programs, have maintained high levels of trust and integrity in their work. They have adopted nonpartisan agendas and maintained high standards of fiscal accountability. The end result of all these factors has been the creation of a special climate where a highly successful program of one group can ripple out and be replicated by many others, where private and public agencies can enter into formal agreements to design and implement new development methodologies together.

Since making its first in-country grant in 1971, the Inter-American Foundation has been an active partner in strengthening this network. Project grants have emphasized both *integración*, or the integration of the poor into the mainstream of society, and *desarrollo*, the development of productive capacity among the poor. Sixty-three grants—totaling $8,889,000—have been made to private institutions, from large national service organizations to local associations of small farmers. Approximately 150,000 families or one million people (most of them earning less than the Dominican minimum salary of $100 per month) have benefited from these projects. There is no precise way to calculate the number of indirect beneficiaries since most of these projects were intended as models to be replicated, or are ongoing efforts such as revolving loan funds, which continue to circulate and capitalize. The impact of these grants was further magnified by development resources leveraged from the private sector. For every Foundation dollar invested in a project, the Dominican project counterpart contribution was two dollars. Because many of the projects have gone on to attract additional support from other government, private, and international agencies, approximately six dollars in new capital has been generated for every dollar originally invested by the Foundation.

A closer examination of grants reveals four categories of support. First, approximately $5.7 million has been targeted toward the rural poor. Of this amount, almost 70 percent ($3.6 million) has capitalized revolving credit funds and provided technical assistance and training to improve crop production, processing, and marketing among small farmers. Second, nearly $1.3 million has been invested in nine programs to generate jobs by providing technical assistance and credit to urban microenterprises. Third, $1.1 million supported efforts to develop model self-help housing programs. Finally, approximately $815,000 went to eight organizations to support vocational and nonformal educational programs. Two smaller grants supported low-income Dominican artists and an effort to enrich the national culture by reviving and preserving a rich heritage of folk music and dance.

A broad overview of these projects initially suggests overwhelming success: 30 have completed their objectives; another 30 are in process with no serious difficulties; two encountered serious problems but met some of their objectives; one failed to get underway and was terminated. Yet the effects of that success seem diminished in the context of a national economy foundering in the worldwide recession of the early 1980s. This paradox frames a fundamental question: Why have Dominican private organizations continued to multiply and diversify despite the generally hard times? An examination of three IAF case histories provides some clues.

SMALL FARMERS AND URBAN ENTREPRENEURS: THE FDD

Leading professionals and businessmen joined together almost a quarter century ago and, with support from the Pan American Development Foundation, established one of the country's first private organizations to promote rural development. Their creation—the Fundación Dominicana de Desarrollo (FDD)—successfully provided credit and technical assistance to small farmers for a decade, but outreach was limited. Realizing that something new had to be tried to reach more people and tap larger re sources from the private economy, i 1972 the FDD used the IAF's first gran ($469,502) in the Dominican Republic t help capitalize a loan guarantee fund The program was designed to under write commercial loans so that bank would expand access to credit beyon medium- and large-scale agro-industria borrowers to include groups of smal farmers for the first time.

Two hundred twenty such loans wer made during the next five years, totalin $1.9 million. Although repayment rate remained high, the banks eventually de cided to drop out of the program. Com parative profit margins were low, whil the risks from second-time borrower rose when the fund was only able to un derwrite loan renewals for less tha 50 percent.

Access to credit and the concept of group borrowing, however, did not die with the banks' withdrawal. The FDD combined the resources of the guarantee fund with contributions from the business community and a number of domestic and international sources (SOLIDARIOS, USAID, and the Heifer Project International, among others) to expand its program of direct credit to the poor. Between 1972 and 1980, the Foundation's loan portfolio increased eightfold —from $833,000 to $6.8 million—and the rate of annual lending more than quadrupled from $445,000 to $2.2 million. The Agricultural Bank also eventually moved into the breach. It opened a 5 million peso line of credit for the FDD in 1980, and changed its loan policy to begin channeling credit to groups of campesinos. Meanwhile, many of the FDD's original borrowers had demonstrated their creditworthiness and had accumulated enough assets to qualify on their own for loans from commercial institutions or the Agricultural Bank.

After taking stock in 1981 of its experience in routing funds to small farmers, the FDD decided to branch out and tackle the problem of urban unemployment. It worked with ACCION International to develop a novel approach to providing credit to small businesses (20 employees or less), sole proprietors, and *tricicleros* (vendors who sell their wares from three-wheeled bikes). Not only did this mark the first project in the Dominican Republic dealing with the informal sector, but it was the first time in the Hemisphere that credit was provided to small groups—*grupos solidarios*—of urban vendors. These small entrepreneurs had been seen as unreachable because of the randomness of their work and absence of any social organization.

The program quickly took off. An IAF grant of $365,000 capitalized the revolving credit fund. During the first year, the FDD staff of seven supervisors and one technical specialist disbursed and administered $340,000 in loans to 63 microenterprises and 673 sole proprietors (such as food vendors and paper collectors), with an excellent repayment rate of 96 percent. The $143,558 loaned to microenterprises created 253 new jobs—one for every $567 borrowed. In addition, another 189 small businesses and over 1,000 entrepreneurs received technical assistance and training in management, sales, and accounting during the first two years of the project.

In succeeding years, the FDD again demonstrated its ability to generate new funding, adjust program design to overcome setbacks, and inspire other organizations to provide services so that new projects could be developed. In 1982, USAID helped finance an expansion of the loan fund and also covered a considerable portion of administrative costs. This inflow of resources was offset, however, by the deepening recession in the national economy during 1983–1984, when loan repayment levels slipped to 86 percent. FDD responded by slowing the pace of making new loans, and by offering more technical assistance so that small entrepreneurs could save enough through greater efficiency to survive the downswing. More recently, other organizations have formed to try and build on and improve upon the FDD experience. For example, the Association for the Development of Microenterprises (ADEMI) combines low-interest loans of varying size and duration (depending on business volume and previous credit history) with technical assistance to help small businesses grow enough to qualify for credit from the regular banking system (see Sarah W. Wines, *Grassroots Development*, Vol. 9, No. 2). The FDD has now turned over its Santo Domingo clientele to ADEMI, and negotiated a five million peso line of credit from the Central Bank to start similar credit programs in smaller cities. Six such programs are already operating.

CREDIT PROGRAMS FOR SMALL FARMERS: THE COOPERATIVE NETWORK

In conferring legal status to the cooperative movement that emerged during the early 1960s, the government made provisions that allowed a three-tiered structure to form: local groups were linked into three federations—two of small farmers, one of credit unions—that eventually established one umbrella confederation. The Dominican Confederation of Cooperatives (CODOCOOP), which now represents 165 local affiliates and some 70,000 people, has received a $1 million grant from the IAF, the Foundation's largest in the Dominican Republic to date.

The first installment of $500,000 was used by CODOCOOP as seed capital to start a revolving loan fund so that small farmers would have timely access to money to plant, harvest, and market their crops. Although more than $2 million was leveraged from private Dominican banks and the fund retained a high repayment rate, CODOCOOP could not compete with large agricultural producers who had access to cheaper credit.

The search for more favorable terms of credit led the confederation to a new and unexpected solution—the creation of a *sociedad financiera*. In Dominican law, a *financiera* has legal status similar to a commercial bank and has direct access to the Central Bank, but with several favorable concessions. It qualifies for discounted loans at 3 to 5 percent interest rates, can borrow up to 3.65 times its equity, is tax-exempt for 15 years, and has access to international development funds. Using a supplemental IAF grant of $500,000 in 1977, CODOCOOP established the Financiera para el Desarrollo y la Cooperación (FICOOP), the only one of 15 such institutions in the Dominican Republic to operate on a nonprofit basis.

The payoffs were immediate. Since 1978, FICOOP has loaned over $12 million to rural cooperatives for crop production, multiple service centers, food processing facilities, and marketing operations. According to a 1980 study by Jeff Dorsey of the University of Wisconsin's Land Tenure Center, 22,000 small farm families had already benefited from such loans. During this same time period, FICOOP covered its own overhead, and raised enough revenue to finance educational and community development projects, technical assistance programs, and CODOCOOP's operating budget.

As the Dominican recession deepened in 1982, however, FICOOP experienced serious financial and organizational problems. The Central Bank tightened terms of credit and called in past obligations. To maintain solvency, FICOOP was forced to restrict its lending policy, sell some assets, and refinance loans. With assistance from the Central Bank and funding from international donors, it restructured its operations. Staff agronomists screened new project loans for technical feasibility and provided direct assistance in project implementation. A collections department was set up to process repayments, replacing the past practice of billing through the federations. Access to credit was widened to include small farmers other than cooperatives, and funding priority was shifted to agro-processing projects. Noting these changes, FICOOP also changed its name to the Banco de Desarrollo y la Producción (BADEPRO).

By 1985, FICOOP/BADEPRO seemed to have weathered the crisis in the national economy, unlike many other financieras and banks that offered rural credit and failed. Why? Undoubtedly its ability to work successfully with the Central Bank and international development agencies was important, but so was its ability to effectively use the national network of cooperatives to channel credit to small farmers. FICOOP/BADEPRO continues to be one of the few nongovernmental, nonprofit credit institutions that can sustain itself through locally generated resources.

RECONSTRUCTION AND SELF-HELP HOUSING: CII-VIVIENDA

The hurricanes of 1979 brought new urgency to the chronic shortage of adequate housing in the Dominican Republic. As the cleanups got underway, representatives of several public and private organizations met informally to share ideas and plan a new line of attack. They decided to form the Inter-Institutional Housing Council (CII-VIVIENDA) to maximize the benefits of reconstruction by using the rebuilding process to develop new methodologies for providing low-cost housing to the nation's poor.

In 1981, the Foundation supported two self-help housing projects sponsored by members of CII-VIVIENDA. The first grantee, the Fundación San José (FSJ), had been formed in 1979 by a group of architects, engineers, and businessmen anxious to make a dent in the nation's housing problem. The IAF grant of $170,000 was matched by the Dominican Businessmen's Association and was used to construct 40 dwellings in Haina, a port city 45 minutes from Santo Domingo. Technical assistance was provided by a former manager of the Salvadoran housing foundation FUNDASAL.

The second grant of $280,000 was made to the Fundación para el Desarrollo Comunitario (FUDECO). FUDECO worked in collaboration with the Instituto Nacional de la Vivienda (INVI) to construct a rural settlement in the village of La Ciénaga in the municipality of Barahona. The project included the building of 70 houses, a school, a community center, a market and the development of productive activities such as poultry farming, vegetable gardening, and small animal husbandry.

The two projects were complementary. FSJ concentrated on developing guidelines for managing high levels of voluntary labor. FUDECO focused on finding locally available, sturdy yet inexpensive construction materials that could be easily used by inexperienced builders. Both projects met their general objectives, although the level of counterpart support from the participating communities was less than anticipated.

The national housing institute (INVI) later adapted a number of the methodologies and technologies developed by FSJ and FUDECO and incorporated these lessons in plans to construct 1,200 new homes in 9 different communities. This second phase of refining self-help housing technologies, however, has been severely squeezed by a shortage of government housing funds during the recent recession. Construction has begun in three communities, and the members of CII-VIVIENDA continue to collect and analyze information from other projects to insure that mistakes will not have to be repeated as Dominican society continues its attempts to solve the ever-pressing housing shortage.

STRENGTHENING THE INFRASTRUCTURE FOR DEVELOPMENT

One reason private development organizations have continued to grow is their ability to reorganize themselves to take on new tasks. The FDD, for instance, used its experience in providing credit to small farmers to design credit programs for urban microentrepreneurs. With that program successfully underway in Santo Domingo, the Fundación has shifted its attention to new projects in the smaller cities of the interior. Similarly, FUDECO has moved from its original work in self-help housing to developing appropriate production technologies for small farmers and semi-urban dwellers. Although FICOOP/BADEPRO has seemingly narrowed its range of services, it displayed considerable organizational flexibility in restructuring its operations to keep an innovative idea alive and has widened access to credit for small farmers who are members of informal local associations.

This expansion in services would not have been possible without attracting new development capital to cover added costs. FUDECO's staff, for instance, doubled from 28 employees in 1980 to 60 in 1985, while its budget almost quadrupled from $142,000 to $559,000. Simultaneously, IAF funding dropped from 52 to 9 percent of FUDECO's income. Over 90 percent of the 1984–1985 budget was financed by the Dominican private sector and through loans and grants from Canadian, German, Norwegian, and U.S. agencies other than the Foundation. FICOOP/BADEPRO has followed a similar path. From 1977 to 1982, the IAF was its sole international donor. By 1985, the financiera relied on Foundation funding for only 3.9 percent of its budget: 49 percent was covered by operational revenue; 36.2 percent by international loans and grants from the Inter-American Development Bank, USAID, the Caribbean Basin Initiative, and FMO (a Dutch agency); and 14.8 percent by local investors. As previously noted, the FDD has been able to expand its programs by opening lines of credit with the Dominican Agricultural Bank and Central Bank.

Most importantly, established private development organizations continue to spawn new groups. This expansion is both centrifugal and centripetal. The first pattern takes on two forms, both illustrated by the FDD. The emergence of ADEMI, which superseded the Fundación's microenterprise program in Santo Domingo, is one example of how a new organization forms to offer more-specialized services that build on and advance another group's prior success.

The Asociación de Grupos Solidarios Dominicanos exemplifies a second kind of spinoff at the local level, this time among beneficiaries who have learned to manage their own affairs. The Asociación was created by 32 groups of *tricicleros*, representing approximately 190 members, who have received credit from the FDD and who banded together to advance their interests and expand the range of available benefits. For instance, Solidarios has become a conduit for manufacturing and selling bikes to members. The prospective buyer deposits 70 cents per week (usually for 3 months) in a savings program to pay for necessary raw materials and parts. The bike is assembled in the Asociación's workshop and given to the member. After making payments of $4 per week for nearly a year, the member receives an ownership title. The benefits of this purchase are considerable. Each new buyer has acquired a fixed asset and no longer has to lease a bike from intermediaries at costs of up to $1.50 per day. This sum can then be used for other family expenses or investments. For example, a number of wives have used the money to establish small fruit or vegetable stands. Solidarios' other services to members include medical insurance, legal representation, and training. Recently, the association successfully lobbied the government to reduce the cost of licenses, which had exceeded that of taxis.

The second pattern of expansion is centripetal. That is, Dominican private development groups are increasing their ties with each other to pursue common objectives and share related experiences. The self-help housing initiatives of CII-VIVIENDA are one example. The creation of the Centro Dominicano de Organizaciones de Interés Social (CEDOIS) is yet another. Twenty nonprofit development and social service organizations formed this consortium in 1983 to increase their role as partners in building a democratic and pluralistic Dominican Republic. A Foundation grant and matching counterpart funds are being used to develop technical assistance and training programs to streamline each group's administrative capabilities and to make the needs and possibilities of private development organizations known to other sectors of society. CEDOIS is, to my knowledge, the only such representative body of private agencies that has originated from the initiative of its own members and that professionally staffs its operations from membership contributions.

PRIMING THE PUMP

The network of private development groups that has emerged during the past 25 years has had a profound effect on Dominican society. Programs from other countries have been adapted to local settings, and new ideas have been tested that provide innovative models for other groups in other lands. The overhead costs of administering these programs remain low, and international funding has supported their expansion and replication. The Dominican government has used its resources and changed its policies to take advantage of many of these new insights and implement them on a larger scale. And the process of organizing new groups, coordinating their efforts, and opening channels of communication among the various sectors of society continues apace.

The IAF feels a special responsibility in responding to these trends. In the surveys and interviews obtained for this report, people in the field stressed, again and again, the importance of the Foundation "priming the pump," of its willingness to support new ideas. Financing is available, domestically and internationally, for programs that have already shown they can work. Risk capital for testing new ideas and organizing new initiatives remains scarce.

In looking toward the future, a number of steps can be taken to build on the lessons of past success and to nurture new and promising trends. First, and most obviously, the Foundation can continue to assist established national and regional institutions to experiment in new and innovative areas of work. Second, longer term institutional support can be provided to new organizations that have project ideas with merit and also have good prospects of eventually securing local and international support. Third, the Foundation can encourage the rapidly expanding process of organization that is now reaching the remotest sectors of Dominican society by strengthening its in-country support system to provide prompt and effective assistance to informal associations of small farmers and producers. Fourth, credit proposals that explore collaborative ways of leveraging local funds for small farmers and businessmen through loan guarantees, loan insurance, or other innovative means should receive special consideration as effective tools for increasing the pool of locally available resources. Finally, several new women's and young people's programs have gotten off to promising starts. Those efforts can be supported and expanded so that their largely untapped productive capacities can further accelerate the process of national development.

This review of the past 15 years of IAF activity in the Dominican Republic coincides with the fifteenth anniversary of the Foundation. One cannot easily overlook the foresight of the Congressional founders of the IAF who saw the need to assist private and community organizations in Latin America and the Caribbean that were trying to lay the groundwork for the many large and small acts required in building enduring democracies. The realization that a way had to be found to support these groups, outside the short-term foreign policy interests of the U.S. and without inflaming partisan conflicts in other countries, was one of those rare instances of "the right idea at the right time." The Foundation has grown and learned much from its work with Dominican grantees, and as they grow and new groups step forward, we stand ready to help them expand and strengthen the infrastructure for development in their society.

STEPHEN VETTER is the Vice President of Programs at the Inter-American Foundation. He has served as the IAF representative to the Dominican Republic, Jamaica, and Brazil. His earlier book, *The Inter-American Foundation in the Dominican Republic: A Decade of Support for Local Development Organizations, 1971–1981*, a bilingual edition, was co-authored with Robert Mashek and can be obtained by writing to the Foundation.

ATTACHMENT NO. 3

FUNDING STATUS: NICARAGUA

FY89	SPTF	APPR	TOTAL	F.R.
NC-141		39,050		Barbieri
NC-140		42,850		Barbieri
NC-139		96,500		Barbieri
NC-138		35,600		Barbieri
NC-137		65,125		Barbieri
NC-136-A2		69,750		Barbieri
NC-135-A3		33,100		Barbieri
NC-134-A3		10,950		Barbieri
NC-132-A3		23,700		Barbieri
SUBTOTAL		416,625		

FY88 Carryover:

FY89 Program contracts (ICS, evaluations, other):

9PE-005 Cinase	17,800
8PC-001 Cinase	6,000
9PC-005 Cinase	4,500
9PQ-002 Mashek	6,650
SUBTOTAL	34,950

FY89 BUDGETED:	550,000
FUNDING TOTAL:	451,925
FY89 UNEXPENDED:	98,075
FY89 OVERAGE:	

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-132

GRANTEE	Cooperativa "Francisco Jarquín Martínez"
ADDRESS	Apartado Postal 4431 Managua, Nicaragua
TYPE OF ORGANIZATION	Multiple service cooperative
FUNDING	IAF* $76,700 Grantee 2,700 Total $79,400

* Social Progress Trust Fund, Categories A & F

DURATION One year

DATE GRANT AGREEMENT
SIGNED: November 12, 1987
Amendment No. 1: June 1, 1988
Amendment No. 2: June 30, 1988
Amendment No. 3: June 29, 1989

ORGANIZATIONAL BACKGROUND

The Cooperativa "Francisco Jarquín Martínez", a multiple service cooperative with 44 peasant farmer members, was founded and legally recognized in 1979. Located in Ticomo Sur, a short distance from Managua, and governed by an elected five-member board, its purpose is to help members address basic production and consumer problems. Members presently cultivate 92 of their 238 hectares (40 corn, 36 beans, 6 rice, 5 escoba, 5 tomatoe/onion).

Over the past three years, with technical assistance from the Instituto de Promoción Humana (INPRHU), the Cooperative has experimented with various crops (pineapple, watermelon, coffee) as a complementary source of agricultural income. Because of a scarcity of water and the lack of needed irrigation, these experiments met with limited success. The pig-raising experience of several members inspired the present project.

PROJECT DESCRIPTION

To establish a pig-raising project, the Cooperative will construct a 350-pig sty and a small shed to store feed, it will dig a well which will provide water needed to meet sanitation demands, buy pigs and a water pump, and hire consultants for needed technical assistance. The Cooperative expects to establish a stable, complementary, economically-profitable activity that will directly benefit its 44 member families (352 persons), raising family income from $273 to $750 by the end of the second year. It will also provide a source of drinking water to the 1,500 inhabitants of the Ticomo Sur community and pork for local and Managua markets.

Foundation funds will be used to construct the pig sty and feed shed, to dig the well, buy pigs and water pump, and to pay for technical assistance. The cooperative will provide land and labor to build project facilities.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-134

GRANTEE Cooperativa "La Lucha"

ADDRESS
Apartado Postal 4431
Managua, Nicaragua

TYPE OF ORGANIZATION Production Cooperative

FUNDING

IAF*	$123,100
Grantee	20,900
Total	$144,000

* Social Progress Trust Fund, Categories C & F

DURATION One Year

DATE GRANT AGREEMENT
SIGNED: November 12, 1987
Amendment No. 1: June 1, 1988
Amendment No. 2: June 30, 1988

ORGANIZATIONAL BACKGROUND

The Cooperativa "La Lucha", a peasant farmer production cooperative, is located in the Department of Granada. It was founded and legally recognized in 1984. Governed by a five-member elected board, it provides members with services for the production and marketing of their crops. Cooperative members have title to 75 hectares, of which 41 are used to grow corn and beans for local consumption. The rest is in natural pasture. The Cooperative has a close working relationship with the Instituto de Promoción Humana (INPHRU), which provides it with technical assistance and accounting services.

PROJECT DESCRIPTION

The Cooperative will dig a well, install electricity and a water pump, and establish an irrigation system for corn and bean production. The well will provide drinking water which will improve health and sanitation for the 5,000 persons of 3 neighboring communities. It will also make irrigation and an additional yearly crop possible for cooperative members, substancially increasing production and income for 49 families (386 persons).

Foundation funds will be used to dig the well, install electricity, purchase a water pump and irrigation equipment, and to pay for needed technical assistance. The Cooperative will provide land, the water tank, and labor to install irrigation equipment.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-135

GRANTEE	Cooperativa "Hermanos Osorio Aguilar"
ADDRESS	Apartado Postal 4431 Managua, Nicaragua
TYPE OF ORGANIZATION	Multiple service cooperative

FUNDING

IAF*	$87,200
Grantee	28,400
Total	$115,600

* Social Progress Trust Fund, Category "C"

DURATION One year

DATE GRANT AGREEMENT
SIGNED: November 12, 1987
Amendment No. 1: June 1, 1988
Amendment No. 2: June 30, 1988

ORGANIZATIONAL BACKGROUND

The Cooperativa "Hermanos Osorio Aguilar", a 35-member multiple service cooperative of salaried farm workers and subsistence farmers, is located in Diriomo, Department of Granada. Governed by a five-member elected board, it was founded and legally recognized in 1983, to address members' basic production and consumer needs. Cooperative members live dispersed over a five-mile radius around their 67 hectares of land. Because it lacks water, none have been able to settle on it or to make it as productive as it would be with water if they were closer to their work. Members cultivate corn, rice, beans, yuca, and tomatoes for family consumption. The Cooperative has good working relationships with neighboring cooperatives and receives technical assistance from the Instituto de Promoción Humana.

PROJECT DESCRIPTION

To make it possible for its 35 members to settle their land and have access to needed water, the cooperative will dig a well, install electricity, buy a water pump, and build 3 water tanks. The Cooperative's well will provide water for three neighboring cooperatives and the Los Jirones community, a total of almost 3,000 persons. The Cooperative expects that by bringing members together the project will strengthen the Cooperative, create the basis of increased production and income, and consequently improve members' standard of living.

Foundation funds will be used to dig the well, purchase a water pump and materials for the installation of electricity, and to build three water tanks. The Cooperative will provide labor and land.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-136

GRANTEE Instituto Centroamericano de Administración de Empresas (INCAE)

ADDRESS Apartado 2485, Managua, Nicaragua

TYPE OF ORGANIZATION Private, non-profit, educational institution

FUNDING

IAF*	$226,000
INCAE	112,000
Others	148,000
Total	$486,000

* Congressionally Appropriated Funds

DURATION Two Years

DATE GRANT AGREEMENT
SIGNED: October 15, 1987
Amendment No. 1: Sept. 15, 1988

ORGANIZATIONAL BACKGROUND

The Instituto Centroamericano de Administración de Empresas is Central America's only graduate school of business administration. Established in 1964 at the initiative of business leaders from each of the five Central American countries and Panama, it has since developed into one of Latin America's strongest schools of business administration and management.

From the outset, INCAE has maintained close ties with and received continuing professional assistance from Harvard University's Graduate School of Business Administration. INCAE currently has a presence in every Central American country and is beginning programs in Ecuador and Colombia. INCAE's principal campus is in Alajuela, Costa Rica. Another campus operates in the suburbs of Managua, Nicaragua.

INCAE, which is recognized in these countries as an international organization, has received funds from diverse sources. However, most of INCAE's income is generated from tuition payments and consulting fees. In addition, INCAE has received support from the governments and business communities of member countries, and from such international funders as the United States Agency for International Development (USAID), the Ford and Rockefeller Foundations, and the Inter-American Development Bank.

PROJECT DESCRIPTION

During this one-year project, INCAE will provide 21 scholarships to Nicaraguans who are involved in small business and grassroots development efforts in their country. Recipients, who will all represent non-governmental organizations, will receive advanced management training at the Managua, Nicaragua, campus as part of INCAE's special advanced degree program, known as the "Program of Functional Administration" (PAF).

Scholarship funds provided through this grant will be used to cover tuition, travel, room, board and educational expenses during the 1987 - 1988 school year which begins in September, 1987.

Those receiving scholarships will be selected by a committee of professors from INCAE and representatives of the Nicaraguan Development Foundation (FUNDE). Students will be selected on the basis of economic need, academic qualifications, and demonstrated commitment to private sector development initiatives that benefit marginal populations in Nicaragua.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-137

GRANTEE	Cooperativa "Paul Gonzalez"
ADDRESS	Apartado Postal 4431 Managua, Nicaragua
TYPE OF ORGANIZATION	Production Cooperative
FUNDING	IAF* $65,125 Grantee 37,500 Total $102,625 * Congressionally Appropriated Funds
DURATION	One Year DATE GRANT AGREEMENT SIGNED:

ORGANIZATIONAL BACKGROUND

The Cooperativa "Paul González", a 17-member vinegar-producing cooperative, was founded in 1982. Located in Masaya and governed by an elected five-member Executive Council, its purpose is to provide employment and a stable source of income for its members. During the last four years, as dollars grew scarce and less funds were available for consumer goods, imported acetic acid, the basis of vinegar production could only be obtained in limited supply. This drastically reduced the cooperative's production possibilities; 23 of its then 40 members had to look elsewhere for work.

Since that time, the remaining 17 have taken courses and learned the process of making an acetic acid substitute. With the help of the Instituto de Promoción Humana (INPRHU), they have also been trying to find the capital needed to initiate production of this substitute. That is their project.

PROJECT DESCRIPTION

The Cooperative will purchase and install the equipment necessary to produce a substitute for imported and scarce acetic acid from locally abundant pinapple and bananas. It will also adapt its present building for this purpose. Initially, the Cooperative expects that the project will provide full-time work for its 17 active members. It will gradually reincorporate additional members, making it possible for all to earn enough to cover basic living expenses.

It also expects to produce sufficent of the vinegar-base substitute to cover about 200 of the area's 350 to 400 vinegar-producers' demand for acetic acid, making it possible for them to increase and/or reinitiate production. Direct beneficiaries will be some 1,200 very poor and hard-working people.

Foundation funds will be used to purchase equipment and building materials and to pay for needed technical assistance. The Cooperative will provide land, building, and some equipment.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-138

GRANTEE

Cooperativa "Trabajadores al Poder"

ADDRESS

Apartado Postal 4431
Managua, Nicaragua

TYPE OF ORGANIZATION

Cooperative

FUNDING

IAF*	$35,600
Grantee	8,000
Total	$43,600

* Congressionally Appropriated Funds

DURATION

One Year

DATE GRANT AGREEMENT SIGNED:

ORGANIZATIONAL BACKGROUND

The Cooperativa "Trabajadores al Poder", a 42 member shoe-makers' cooperative, was founded in 1979. Legally recognized in 1987 and governed by an elected 5-member Executive Council, the purpose of the Cooperative is to create stable and profitable employment for its members. It also wants to produce a quality product that can be sold at an easily accessible price. Since 1979, membership, production, and earnings have grown every year. The Cooperative recognizes its social responsibilities, not only with a fund used to help members address family crisises, but by voluntarily holding down profits and making ortopedic shoes which are sold at cost. The Cooperative has a working relationship with the Instituto de Promoción Humana (INPRHU).

PROJECT DESCRIPTION

The Cooperative will purchase and install leather sewing and cutting equipment, parts to repair its old equipment, and a vehicle for marketing and transporting raw materials. To accomodate the new equipment, it will build an extension on its present office/shop building. With the project the Cooperative expects to increase its production by 20 pwercent, improve the quality of its shoes (from glue and nails to neatly sewn), and to increase members' income by 60 percent, directly benefitting some 250 people.

Foundation funds will be used to purchase equipment, parts, and a vehicle. The Cooperative will provide material and labor for an annex to its building.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-139

GRANTEE — Cooperativa "El Caimito"

ADDRESS

Apartado Postal 4431
Managua, Nicaragua

TYPE OF ORGANIZATION — Agricultural Production Cooperative

FUNDING

IAF*	$96,500
Grantee	19,700
Total	$116,200

* Congressionally Appropriated Funds

DURATION — One Year — DATE GRANT AGREEMENT SIGNED: June 29, 1989

ORGANIZATIONAL BACKGROUND

The Cooperative "El Caimito", an agricultural production cooperative of *campesino* women, was founded in 1981. Governed by a five-member elected Executive Council, the Cooperative helps members address production and marketing problems, thereby increasing income. In 1982, with Inter-American Foundation funds and the Instituto de Promoción Humana's technical assistance, the Cooperative initiated a poultry project, which provided work and income for Cooperative members. In 1987, when the Cooperative could no longer produce eggs economically, it began to explore other alternative sources of income. This search was the source of the present project.

PROJECT DESCRIPTION

The Cooperative will dig a well and purchase a pump and the equipment necessary to irrigate 50 of its 100 acres of land. The Cooperative anticipates that it will: 1) increase corn, beans, and sorghum production; 2) members' income; 3) provide water, access to basic grains, and seasonal employment for the community; 4) reintegrate at least 20 inactive members; and 5) strengthen itself as an organization and catalyst for development within the Caimito community. This project will benefit El Caimito's members and approximately 400 community inhabitants.

Foundation funds will be used to dig the well, purchase the pump and irrigation equipment, and to pay for technical assistance. The Cooperative will provide land and labor.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-140

GRANTEE — Sindicato "Aurigas de Granada"

ADDRESS

Apartado Postal 4431
Managua, Nicaragua

TYPE OF ORGANIZATION — Union of Carriage Owners

FUNDING

IAF*	$42,850
Grantee	2,400
Total	$45,250

* Congressionally Appropriated Funds

DURATION — Two Years — DATE GRANT AGREEMENT SIGNED:

ORGANIZATIONAL BACKGROUND

The Sindicato "Aurigas de Granada", a 32-member union of Granada's horse-drawn carriage and cart owner/drivers, was founded in 1960. Governed by a five-member elected Executive Council, the Union's purpose is to help its members address the problems related to maintaining their units and increasing their income. It originally organized to handle all official relations with local government: parking arrangements, licenses, and traffic problems. In the early 1970s it began purchasing feed for members' horses and making arrangements for carriage repair. In 1981, the Instituto de Promoción Humana (INPRHU) gave it a loan to make minimal basic repairs. It has also helped the Union search for additional funds. Part of that search is the present project.

PROJECT DESCRIPTION

The Union will establish a workshop in Granada to make and repair carriages and carts. During the course of the project, it will make 10 new carriages and renovate 10 others. With the project the cooperative expects to increase member employment, improve service to the community, extend working hours, and triple income. In the long term, after addressing Granada's needs, the it expects to build and sell carriages in the other cities where they remain popular. The project will directly benefit the 32 member families, some 170 in all.

Foundation funds will be used to purchase building materials, tools, and equipment for the carriage shop, to provide working capital, and to pay for technical assistance. The Union will provide land and labor for the construction of the shop.

INTER-AMERICAN FOUNDATION (IAF) GRANT

NICARAGUA

NC-141

GRANTEE

Cooperativa "San Isidro Libertador"

ADDRESS

Apartado Postal 4431
Managua, Nicaragua

TYPE OF ORGANIZATION

Cooperative

FUNDING

IAF*	$39,050
Grantee	7,330
Total	$46,380

* Congressionally Appropriated Funds

DURATION

One Year

DATE GRANT AGREEMENT SIGNED:

ORGANIZATIONAL BACKGROUND

The Cooperative "San Isidro Libertador", a 10 member clothes-making cooperative, was founded in 1983. Governed by an elected five member Executive Council, its purpose is to assure members a steady source of employment and income and to contribute to solutions of community problems. It has received financial support from the Canadian Save the Children to establish and equip its workshop/office. It has also received technical assistance from the Instituto de Promoción Humana (INPRHU).

The Cooperative met its goals until mid-1987, when hyperinflation and devaluations depleted its operating capital. It was forced to suspend operations. Recently, with limited capital, is has begun to work on a part time basis.

PROJECT DESCRIPTION

The Cooperative will purchase a cloth cutter, repair its shop, and use the operating capital necessary to reinitiate full time operations. It will also train some 20 of the community's young people (about half from the local orphanage) as tailor/dressmakers. With the project, it expects to increase membership, employment, and income for members, provide clothes for the community at a reduced price, and help support, with a percentage of earnings, the local orphanage.

Foundation funds will be used to provide operating capital, training, and technical assistance, to purchase equipment, and repair the shop. The Cooperative will provide sewing equipment and the shop building.

ATTACHMENT NO. 4

INTER-AMERICAN FOUNDATION (IAF) GRANT

PANAMA

PN-147

GRANTEE

Instituto de Investigación y Educación para el Desarrollo (INEDESA)

ADDRESS

Apartado 3-131
Panamá 3,
Panamá

TYPE OF ORGANIZATION

Private, non-profit development organization

FUNDING

IAF*	$ 418,151
Grantee	835,183
Others	14,700
Total	$1,268,034

* Congressionally Appropriated funds

DURATION

One Year

DATE GRANT AGREEMENT SIGNED:

ORGANIZATIONAL BACKGROUND

The Institute de Investigación y Educación para el Desarrollo was established in 1976 and currently has a promotional and administrative staff comprised of 27 individuals. Working out of offices in Panama City and in the interior of the country, INEDESA is implementing an integrated rural development program in the province of Cocle, including the districts of Penonomé, La Pintada, and Olá, denoted as areas of extreme poverty.

Program efforts have focuses on two areas: basic rural services, including feeder roads, housing, and potable water; and agricultural and livestock production, with emphasis on basic foodstuffs and small animal husbandry.

The Foundation has provided funding to INEDESA on several occasions in the past (PN-089, PN-116, PN-130) and the organization currently administers the Foundation's In-Country Fund, created under the terms of PN-110.

In addition, INEDESA has received funding from other external sources, including CEBEMO (Holland), Manos Unidas (Spain), the Inter-American Development Bank, and the Canadian International Development Agency.

PROJECT DESCRIPTION

With funding from the Foundation, INEDESA will continue working with small farmers in Central Panamá, supporting the efforts of local and second-level campesino organizations to gain and exercise greater control over the production, processing, and marketing of basic agricultural commodities.

Over a period of several years, INEDESA will continue to: provide education and training, technical assistance and financial support to local campesino organizations; strengthen second-level campesino federations; manage a credit fund to provide loans to small scale farmers for production, agro-processing, and market- ing; and enter into joint ventures with small farmer organizations in the management of new agricultural enterprises.

In the initial year of this longer-range project, Foundation funding will cover a portion of salary and administrative costs, travel and per diem, education and training courses, technical assistance, and an employee benefits program and will also include additional funds to increase INEDESA's rural credit fund. INEDESA will provide counterpart to the project for each of the items mentioned above. Beneficiary organizations will also contribute counterpart funds to the project for expenses related to education and training.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will stand in recess until 2:30 p.m., on Tuesday, June 13. At that time we will receive testimony from the Department of State and the Agency for International Development.

[Whereupon, at 3:59 p.m., Tuesday, June 6, the subcommittee was recessed, to reconvene at 2:30 p.m., Tuesday, June 13.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

TUESDAY, JUNE 13, 1989

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 2:45 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, Mikulski, Kasten, Specter, and Nickles.

DEPARTMENT OF STATE

Bureau for Near Eastern and South Asian Affairs

STATEMENT OF PAUL J. HARE, ACTING ASSISTANT SECRETARY OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Bureau for Asia and the Near East

STATEMENT OF CAROL C. ADELMAN, ASSISTANT ADMINISTRATOR

OPENING STATEMENT OF SENATOR LEAHY

Senator **Leahy**. Good afternoon. The caucuses ran over in both parties, and that is why we are late. Senator Mikulski, I appreciate your being here. You beat me over here.

The Foreign Operations Subcommittee will consider the administration's budget request for countries in the Near East and South Asia region. We are glad to have as witnesses, Paul Hare, the Assistant Secretary of State for the Near East and South Asia; and Dr. Carol Adelman, Assistant Administrator for Asia and the Near East of the Agency for International Development.

I regret that Mr. John Kelly, the assistant secretary designate for this region, could not join us today, but the Senate has not acted on his nomination yet. It is not his fault he is not here, but we cannot afford to reschedule this hearing again if we are to complete our hearings and mark up the foreign operations bill on time.

I do appreciate the administration witnesses who are here, however. As I have pointed out in the past, they are the ones we wish to hear from on these foreign aid requests and not from the lobbyists or others but those who are making the actual requests.

PREPARED STATEMENTS OF SENATORS DECONCINI AND D'AMATO

In the interest of time I will forego any further remarks and I will leave the record open for opening statements. I would yield first to Senator Mikulski and any other Senators who may be here, and then I would like to start with questions for Mr. Hare.

I would first yield to Senator Mikulski.

[The statements follow:]

STATEMENT OF SENATOR DENNIS DECONCINI

I am pleased to have with us today two representatives from the Executive branch to discuss the opportunities available to the United States resulting from the many changes taking place in the Middle East. Having just returned from an extensive tour of the Persian Gulf and other countries in the region, I am interested in hearing what our witnesses have to say about recent events in the region and how the Bush Administration's policy toward the region may reflect toward grasping any openings which may occur as a result of these changes.

In particular, I am encouraged that the first issue upon which Secretary Hare touches in his statement is the issue of chemical and other missile proliferation. I am pleased that this issue is given a high profile in your testimony as I am very concerned about the destabilizing effect these weapons have on this volatile region and, indeed, the entire developing world.

This issue is especially timely coming, as it does, after last weeks very well received remarks of Pakistan's new Prime Minister Benizar Bhutto regarding her nation's desire for the development of a regional missile nonproliferation policy. I would hope that the Administration would strongly encourage movement in this direction by Pakistan and its neighbors. I also look forward to working with the Members of this Subcommittee in focusing our aid policies toward supporting missile nonproliferation activities in the developing world.

Finally, I continue to be concerned about the role of the PLO in the Israeli-Palestinian peace process. While a dialogue with Yassir Arafat has become part of U.S. policy, reports of continued Palestinian terrorism cast doubt upon his credibility. If this dialogue is to continue, Chairman Arafat cannot continue to speak of peace while allowing Palestinians to openly engage in terrorist activities.

STATEMENT OF SENATOR ALFONSE D'AMATO

India's successful test flight of the AGNI intermediate-range ballistic missile on May 22 only aggravates tensions in the region. Not surprisingly, rumors continue to surface that Pakistan is hellbent on acquiring nuclear weapons of its own. Prime Minister Bhutto's reassurances aside, I do not doubt for a moment that she is any less willing than her father to eat grass in order that Pakistan might join the nuclear club.

To the northwest, the Mujahideen offensive has stalled on the outskirts of Jalalabad. While the U.S. is busy accounting for a handful of stinger missiles the Soviets are airlifting tons of food and materiel to Kabul in support of its puppet, Najibullah. We Americans are notorious for our short attention spans. I hope that 8 years of ferocious resistance by the Mujahideen against a vastly superior foe is not squandered in the 11th hour as U.S. interest drifts.

Thank you, Mr. Chairman.

OPENING STATEMENT OF SENATOR MIKULSKI

Senator MIKULSKI. Thank you very much, Senator Leahy.

As I looked over the administration's request, we are pleased that last year's funding for Israel is included in this year's budget request at the same level. This is indeed a critical time for Israel. I really hope we make it clear that the United States continues to stand behind our ally, particularly now that they are taking such firm and positive steps.

In addition to that, ladies and gentlemen, as I look at the administration's level of request for Pakistan, I am heartened by that. I am a strong supporter of Pakistan, and now that Pakistan has really taken the effort to move to free elections and a peaceful transition to a new government, I think she needs all the help that we can give.

Since her election there, the Prime Minister has freed political prisoners, granted press access to the opposition, worked with us on eliminating drugs, and has even agreed to some type of international monitoring to make sure that they are not developing an Islamic bomb.

That, indeed, is a fragile democracy and difficult geopolitical area, and I hope that we can do what we can to maintain our efforts to Pakistan.

There are many other questions and comments I have, but I would prefer to reserve those until after the testimony.

Thank you, Mr. Chairman.

Senator **Leahy**. Thank you.

My first question will be for Mr. Hare.

I might say, Dr. Adelman, it is good to see you. I am sorry I could only spend 4 minutes at the Bhutto dinner. Senator Mikulski and I and the others had to run back and forth, and I never got a chance to talk substantively on the issues involved with either you or anybody else there. It seemed to be a great reception, and I think the Prime Minister did a superb job in her address to the joint meeting.

PREPARED STATEMENTS

Senator **Leahy**. Before we begin, Mr. Hare and Dr. Adelman, we will insert both of your prepared statements in the record at this point and then move on to some questioning.

[The statements follow:]

STATEMENT OF PAUL J. HARE

I am pleased to appear before this subcommittee to discuss our assistance programs to the Middle East, North Africa, and South Asia. Of the five geographic regions by which the State Department divides its work, this region receives $6.6 billion, or about 45 percent, of all bilateral US military and economic aid. It is the scene of some our most important foreign policy efforts. The success of our policies in the area reflects in large part the resources the United States has been willing to devote to promoting peace, security, and prosperity. This would be impossible without close cooperation between the executive and legislative branches and bipartisan support for our programs. I want to assure you that I am personally committed to doing all I can to continue this record of cooperation.

A CHANGING WORLD

Despite the formidable challenges before us, I believe developments in the world and the region give us grounds for renewed hope and optimism. We have witnessed dramatic changes inspired by aspirations for liberty, democracy, and human rights.

Two weeks ago in West Germany, President Bush expressed our hope that we are at the beginning of new era in our relations with the Soviet Union, that we are moving "beyond containment." The President made wide-ranging proposals to strengthen and broaden the process of pluralism and freedom in Eastern Europe and to create a less militarized Europe.

If, as we sincerely hope, the Soviets respond constructively to the President's proposals, it will affect the entire international environment. The Soviet Union has talked about "new thinking" as it applies to regional conflicts, the idea that the superpowers would seek to resolve these conflicts rather than seek unilateral advantage. We have seen some manifestations of changes in Soviet foreign policy, such as the withdrawal from Afghanistan and Soviet cooperation in peace efforts in Southwestern Africa. We hope the Soviets will demonstrate new thinking in the Middle East by such actions as restoring diplomatic ties with Israel and exercising restraint in arms deliveries. State Department Policy Planning Director Dennis Ross and other members of a US delegation will meet with officials of the Soviet Government on June 15 to discuss the Middle East. We look forward to that opportunity to further explore these and other issues with them.

A CHANGING REGION

We also see grounds for hope in recent developments in the Near East and South Asia. On March 26, Israel and Egypt celebrated 10 years of peace, demonstrating not only the strong commitment of both countries to their relationship, but that negotiations, not war, offers the path to a just settlement of the issues which have divided the region. On February 15, the last Soviet combat troops left Afghanistan, reducing the threat of Soviet expansion in South Asia. On November 16, 1988 Pakistan held free, democratic elections and in December Prime Minister Bhutto formed a new government. In August 1988, a cease-fire was reached in the Iran-Iraq War, reducing the immediate threat from Iran to the moderate Gulf states and the region as a whole. We welcome these developments and can be proud that US policies and our assistance programs contributed to the environment that helped in bringing them about.

BALLISTIC MISSILES AND CHEMICAL WEAPONS (CW)

An issue which is of serious concern to us in the Middle East and South Asia is the spread of ballistic missiles and chemical weapons. These weapons add special dangers to a region in which strong conventional military forces already exist and the potential for conflict is high.

Ballistic missiles with ranges of up to 2500 kilometers (1,552 miles) are now entering the inventories of several states in the region. These systems may encourage potential adversaries to plan preemptive attacks on the missiles or to acquire similar weapons as a deterrent. The horrible experience of chemical weapons use in the First World War resulted in international agreement to forswear the use of these weapons in conflicts. Recently we have seen an erosion of these international norms. The need for concerted and energetic action has been dramatically illustrated by the use of these weapons by both parties in the Iran-Iraq War, by Iraq's use of CW against elements of its own population, and by Libya's attempts to acquire full-scale CW production capability.

This Administration has made clear that it is committed to seeking an end to the proliferation of these powerful, destabilizing weapons, and we have been active on a number of fronts. The United States and six of its allies established a Missile Technology Control Regime (MTCR) in 1987 to curb the uncontrolled supply of missile-related technology. The US has approached other supplier countries on a bilateral basis to express our strong opposition to the spread of ballistic missiles. We have also initiated a dialogue with several states in the Middle East and South Asia to explore ideas for combatting the spread of these destabilizing weapons.

We are making a similar effort directed at chemical weapons, for which our goal remains a comprehensive, effectively verifiable, and truly global ban. We are also focusing on the immediate problem of CW proliferation in those countries which we believe pose the greatest threat to actually use these weapons. We have launched a major diplomatic effort to stop Libya's program and will remain vigilant to Libya's attempts to acquire CW capability.

ARAB-ISRAELI CONFLICT

Before describing our individual assistance programs, let me say a few words about the search for peace in the Middle East. The goal of our policy is a comprehensive peace through negotiations, based on U.N. Security Council Resolutions 242 and 338. These negotiations, in our view, must involve territory for peace, security and recognition for Israel and all states in the region, and Palestinian political rights.

The immediate task is how to begin negotiations. Frankly, the gap between the parties remains wide. The situation in the West Bank and Gaza remains difficult. The Palestinian uprising, or intifada, which began in December 1987, continues. The level of violence remains high, making the prospect of negotiations more difficult. Our efforts will focus on helping create an environment in which negotiations can be launched and sustained.

We are committed to advancing the peace process and remain active, as demonstrated by the productive visits to Washington by President Mubarak, Prime Minister Shamir, and King Hussein; as well as subsequent talks with the Soviets and continuing discussions in the region. The Israeli Government has adopted a proposal for elections which we believe is an important and positive step towards constructing workable negotiations. Details of the proposal must still be developed and many issues must be resolved, but we believe it deserves a constructive Palestinian and broader Arab response. We also call on all parties to help create an atmosphere which is conducive to a renewed peace process.

Let me now turn to our military and economic assistance programs in the region.

MIDDLE EAST

Israel: A fundamental premise of US foreign policy since 1948 has been support for Israel's security. Our links with Israel are broad and deep, based on shared values, common interests, and a commitment to democracy and freedom. Israel and the United States have developed an effective program of strategic cooperation and institutional links which reinforce our close ties in the political, military, and economic areas.

Our proposed assistance program for Israel in FY 90 consists of $1.8 billion in Foreign Military Sales Financing (FMSF) and $1.2 billion in Economic Support Funds (ESF), all provided on a grant basis. Within the $1.8 billion total for military assistance, we are providing additional benefits to Israel. $400 million, for example, is authorized for offshore procurement (OSP) expenditures in Israel. Our direct offsets program with Israel, purchases of Israeli defense articles and services, will total $100 million in FY 90. By mutual agreement, these offsets will be terminated at the end of FY 92.

Our economic assistance of $1.2 billion in ESF is also important in supporting economic stability and structural reform. Israel uses these funds to repay FMS loans made by the

US to Israel prior to 1985 and for commodity imports. In 1988, Israel refinanced $4.75 billion in FMS loans under FMS debt reform legislation, resulting in debt service savings of approximately $150 million annually over the next five to ten years.

Egypt: Egypt is an important and valued partner of the US. Egypt's leadership in the Arab-Israeli peace process, its influence as a force for moderation in a turbulent region, and its support for peaceful resolution of regional conflicts are all congruent with US values and objectives. Egypt has also resumed a central role in the Arab world; last month it was readmitted to the Arab League. Egypt made no concessions to regain its position and remains fully committed to peace and to a stable bilateral relationship with Israel.

Internally, Egypt's most pressing problem remains the economy. Egypt's budget and balance of payments remain deeply in deficit. Arrears on external debts are mounting steadily. In March, the Government of Egypt outlined a series of promising reform measures, such as liberalization of the agricultural and industrial sectors whose implementation deserves our strong support. We are encouraging Egypt to consolidate these measures into a program that can command the broad support of the IMF, the World Bank, and the Western donor community. A new IMF program could then pave the way to another debt rescheduling which would provide critical relief to Egypt's balance of payments and facilitate a resumption of economic growth.

For fiscal year 1990, the Administration is requesting a total of $2.3 billion in combined military, economic, and food assistance to Egypt. Our FMSF request of $1.3 billion in grant assistance will permit the Egyptians to continue to meet their urgent military modernization needs. Designed to facilitate Egypt's replacement of aging, obsolete Soviet equipment with fewer but better quality US items, the modernization program has focused heavily on armor and air requirements. Our $815 million ESF request for Egypt balances support for Egyptian economic stabilization and development objectives. For balance of payments support, we plan to allocate a portion of our ESF program in the form of a cash grant, and additional amounts for commodity imports.

Jordan: The Palestinian uprising has significantly altered Jordan's relationship with the West Bank and its Palestinian population. In July 1988, King Hussein decided to sever most remaining administrative links between Jordan and the West Bank. In doing so he did not opt out of the peace process with Israel. Jordan, an important force for moderation in the Middle East with the longest border of any state with Israel, remains a critical factor in any comprehensive settlement.

The US and Jordan share important objectives and have worked together to support peaceful resolution of regional disputes, to oppose political radicalism, and to provide military assistance to the moderate Gulf states. The US and Jordan have had a bilateral military-to-military relationship for many years. Jordan also plays a vital role in the effort to curb world-wide terrorism.

Jordan's economy is in serious difficulty. It was hard hit by recent cuts in subsidies from Gulf governments as well as reductions in remittances from Jordanians working abroad. The Jordanian government has responded with a strong adjustment program and has reached an agreement with the IMF. Recent disturbances in southern Jordan over austerity measures underline the seriousness of the problem.

These economic difficulties come just as US aid to Jordan has declined sharply. Last year (FY 89), we requested $48 million in FMSF credits, but due to budget constraints we were able to actually provide only $10 million. I hope that we can avoid a similar result this year. For FY 90, we are requesting $48 million in FMSF, $2.2 million in International Military Education and Training (IMET), and $35 million in ESF. This will help us continue our important cooperation with Jordan.

West Bank and Gaza: The unrest in the West Bank and Gaza is a vivid reminder that the future status of the Occupied Territories and the 1.6 million Palestinians who live there are at the center of the Arab-Israeli conflict. Unemployment and underemployment cause hardships and contribute to instability and violence. Over the medium-term, economic development and self-reliance can give Palestinians a larger stake in a peace settlement and encourage moderate forces within the Palestinian community.

Our assistance program in the West Bank and Gaza began in 1975 with strong Congressional support. Notwithstanding the current difficulties, we remain committed to fostering economic development in the territories and improving living conditions there, largely through grants to private voluntary organizations (PVO's) such as Catholic Relief Services, Save the Children Federation, and American Near East Refugee Aid.

For FY 90, we are requesting $12 million in ESF for these activities in the territories. This will fund projects to improve health, water, and sanitation; to develop agricultural credit and private sector activities; and to construct schools and roads. The Palestinians, Israel, and Jordan have welcomed the program. PVO's have continued to operate and administer projects despite the disturbances. The program represents the US commitment to a secure future for the Palestinians and all states in the region.

Lebanon: We remain deeply concerned about the deteriorating conditions in Lebanon. Partition has deepened following the failure last September to elect a new president. Two "governments" exist: one in East Beirut, led by Lebanese Army General Awn; the other in West Beirut, led by Dr. Salim al-Huss. Fighting has been almost continuous since March 14 among the Lebanese Armed Forces, led by General Awn, Syrian Army units, and the West Beirut militias.

We back the efforts of the Arab League ministerial committee to arrange a stable cease-fire and to address the problems underlying the violence, such as constitutional reform and an environment free from coercion and threats of violence. The United States remains committed to the restoration of Lebanon's unity, sovereignty, and territorial integrity, the disbandment of militias, and the withdrawal of all foreign forces, including Syrian forces.

Economic conditions in Lebanon are desperate. Inflation has dropped from over 700 percent in 1987 to less than 30 percent in 1988, but unemployment remains high; perhaps a third of the population regularly receives humanitarian relief, including food assistance. In FY 90, we have requested $12.7 million in PL 480 food aid to help feed approximately 135,000 needy Lebanese and $2 million in ESF to meet the operational costs associated with the the food program and other relief activities of private voluntary organizations. We are also continuing our support for the American University of Beirut.

Amid the turmoil, it has continued to provide American-style education and is a symbol of US concern for the fate of Lebanon.

PERSIAN GULF/ARABIAN PENINSULA

The Persian Gulf and Arabian peninsula area is vital to US and Western economic and strategic interests. Iran's attempts to threaten the moderate Gulf states during the Iran-Iraq War highlighted the importance of assuring that they remain free of hostile influence and have the weapons needed to defend themselves. These countries provided critical support for our regional policy over the past two years and contributed in an important way to its success. Our relationships in this area are increasingly important and multifaceted, as I think will be evident as I discuss our assistance programs with Oman and the Yemen Arab Republic.

Oman: Oman is one of the most durable and stable friends of the United States in the Middle East. In supporting Egypt's adherence to the Camp David Accords, it resisted the regional tide in the late 1970's and 1980's. The Access Agreement that we concluded with Oman in 1980 became the keystone of US strategy for the protection of the Persian Gulf. It was critically important to our operations to protect Gulf shipping over the past two years. Oman also faces threats from its neighbors, particularly Iran and the Soviet-supported People's Democratic Republic of Yemen (PDRY - or South Yemen).

US economic assistance to Oman, in the form of ESF, began when the Access Agreement was concluded. Our fiscal year 1990 request for Oman includes $20 million in ESF and $100,000 in IMET. The ten-year Agreement is due for review in 1990 and economic assistance will be an important element of the review process.

Yemen Arab Republic: The Yemen Arab Republic, or North Yemen, occupies a strategic location at the southern entrance to the Red Sea and borders Saudi Arabia and South Yemen. North Yemen has been threatened in the past decade by direct attacks and attempts at subversion from South Yemen.

North Yemen is one of the poorest and least developed countries in the Middle East. The US firm Hunt Oil discovered oil in 1984 and the country joined the ranks of the petroleum-exporting nations in late 1987. Neither exports nor reserves are large, however, and the government's income from oil exports has not been enough to compensate for continued declines in worker remittances and Arab donor aid. Our economic assistance request for North Yemen in FY 90 is $21 million in development assistance (DA) and $5 million in food aid (PL 480) to promote development. Our proposed FY 90 military assistance program, which consists of $2 million in FMSF and $1.1 million in IMET, while small, supports US equipment and US training providing an alternative to Yemeni dependence on the Soviets.

NORTH AFRICA

Though differing in political systems and history, the nations of North Africa face the challenges of rapidly increasing populations, rising expectations, and burdens of external debt. Forming the southern littoral of the Western Mediterranean, the region is vital to the security of southern Europe and to US communications in the Mediterranean.

We have seen significant developments in North Africa during the past year. Algerian-Moroccan rapprochement has changed the regional picture from conflict to cooperation. There has also been progress towards a settlement of the

Western Sahara issue. After the restoration of diplomatic ties between Algeria and Morocco, Morocco and the Polisario agreed to accept a plan put forward by U.N. Secretary General Perez de Cuellar for holding a referendum to decide the future of the territory, although details are still to be worked out.

Libya, however, remains a negative factor. Libya continues its support for international terrorism and subversion. Algeria, Libya, Mauritania, Morocco, and Tunisia announced on February 17 the formation of the Arab Maghreb Union (AMU), an association modelled on the EC. While we are supportive of cooperative regional arrangements, we are not convinced that Libya's inclusion will benefit regional stability. And, as discussed above, we are particularly worried by evidence that Libya has developed a chemical weapons capacity.

Morocco: The US and Morocco have an historic friendship based on shared interests, cooperation, and mutual respect. King Hassan consistently uses his prestige as an Arab and Islamic leader to support moderate approaches to regional problems. Morocco makes important facilities available to the US, including transit rights for US aircraft, a site for a VOA transmitter, and an emergency landing field for the space shuttle.

Morocco is making good progress on its economic problems and has reduced its current account and public sector deficits. Longer term reforms, including privatization of public enterprises, are being debated and implemented. The results last year -- real growth of 9 percent, low inflation, and a current account surplus -- were encouraging.

Our FMSF ($40 million) and IMET ($1.4 million) requests for FY 90 will help sustain existing inventories of US equipment in the context of a long-standing defense cooperation relationship. Our economic and food assistance ($12 million in DA, $15 million in ESF, and $50 million in PL 480) are designed to increase growth, improve food production, promote family planning, and improve natural resource management.

Tunisia: Our longstanding friendship with Tunisia remains strong. Under President Ben Ali, Tunisia is making an extraordinary effort to revitalize itself as a pluralistic, open society. Since 1986, Tunisia has implemented a comprehensive economic reform program to deal with a crisis which had been building for years. There has been real progress, with Tunisia meeting all key targets of a IMF/World Bank structural adjustment program.

Severe droughts in 1987 and 1988 followed by a locust invasion caused serious crop damage and added to normal strains associated with an austerity program. The US response has been to support Tunisian security and development and provide increased food aid. Our economic assistance request for FY 90 of $12.5 million in ESF and $15 million in PL 480 bolsters reform and private sector promotion. Our military assistance request ($31.5 million in FMSF and IMET) will provide spare parts, maintenance and training to support recent equipment purchases.

Algeria: US relations with Algeria have steadily improved since 1981 as Algeria has diversified its international relationships. Algeria's assistance in obtaining the release of American hostages, then Vice President Bush's trip in 1983 to Algiers, and the US visit of President Bendjedid in 1985 have been milestones.

An expanding population, rising expectations, and dependence on export revenues from hydrocarbons are problems for Algeria. Growing frustrations over high prices, unemployment, and shortages of basic commodities came to a head in October 1988 with rioting in urban centers. The government of President Bendjedid is moving to carry out a program of economic and political liberalization.

The United States seeks to support Algeria's reform effort and to expand economic and commercial cooperation. Algeria is already an important customer of US agricultural commodities. We propose to continue our modest military relationship to encourage Algeria's effort to diversify sources of military supply and training. We are requesting $150,000 in IMET for Algeria in FY 90.

SOUTH ASIA

South Asia is an area of increasing importance. Home to one fifth of the world's population, it borders the Soviet Union, China, and the Persian Gulf littoral. Following the Soviet withdrawal from Afghanistan, prospects for peace and stability in the region have improved. India, by virtue of its size and growing economic and military power, is playing a larger role in the region and the world. Pakistan has made the difficult transition to democratic government.

We remain seriously concerned about the danger of nuclear proliferation in South Asia. For both India and Pakistan, the barrier against acquisition of nuclear weapons is political, not technical. Prime Minister Bhutto's statements renouncing acquisition of nuclear weapons are encouraging. We have urged both countries to build on their pledge not to attack each others' nuclear facilities by agreeing to additional nuclear-related confidence building measures. We believe nuclear and missile non-proliferation efforts in South Asia are particularly important in light of India's test launch of the Agni missile, which has a range of about 1,500 miles.

Another major goal of US policy in South Asia is to encourage peaceful resolution of regional differences and increased regional cooperation. Both India and Pakistan have expressed the desire to improve bilateral relations and the US welcomes closer relations between the two countries. The South Asian Association for Regional Cooperation (SAARC) provides a valuable forum for promoting regional understanding and for dealing with issues such as narcotics and terrorism.

We are disappointed that India and Nepal are unable to resolve their differences over the nature of their relationship and that India's actions have sharply restricted trade and economic activity in Nepal. We have urged both countries to begin talks and expressed our concern over the hardship this situation is causing the people of Nepal.

Afghanistan: Fighting continues in Afghanistan between the Afghan resistance and the Najibullah regime in Kabul. We believe the Kabul regime's departure is inevitable, and support Afghan efforts to create a stable, broad-based government responsive to the will of the Afghan people.

The Soviet occupation devastated Afghanistan, destroying roads, irrigation works, clinics, and schools. Food and livestock production capability has been severely damaged. Five million Afghan refugees will face the difficult task of rebuilding their country in the wake of this destruction. Our cross border humanitarian assistance program aims to assist civilians in Afghanistan and refugees in Pakistan, delivering food and other commodities, and funds for health care, agricultural, and educational projects. For FY 90, we are requesting $35 million in ESF and $35 million in development assistance. Also, $17 million in PL 480 food aid and $10 million in DOD humanitarian relief are expected to be provided. Aside from these resources, we continue to make a significant contribution to the multilateral food aid effort through the World Food Program.

Pakistan: Pakistan has been a key partner of the US in preventing the expansion of Soviet influence in South Asia and is vital to the security of South Asia. Pakistan strongly supported the Afghan resistance and has provided a home for over 3 million Afghan refugees. Pakistan also cooperates with us in a wide range of other areas, including control of narcotics trafficking.

The emergence of the new democratic government in Pakistan is one of the most promising developments in many years. We were especially pleased to welcome Prime Minister Bhutto to Washington last week. Her government is committed to a significant reform program and has made major advances in several areas, such as human rights. Also, although economic growth has been impressive, Pakistan remains a poor country, with a per capita income of about $390. There are heavy demands on social services by Pakistan's large (108 million) and rapidly growing population.

Our proposed assistance for FY 90 is the third year of a six-year program (FY 88-93) aimed at helping Pakistan continue a limited and much-needed modernization of its armed forces while strengthening the economic basis of a growing, stable society. We believe it is particularly important to provide our full request for FY 90, $241 million in military assistance and $380 million in economic aid, to meet these objectives and to demonstrate our support for democratic government in Pakistan.

India: The US and India share a dedication to democratic government. The largest and most populous state in South Asia, India is also an emerging power whose influence is felt beyond the region. India has a large and increasingly sophisticated industrial and technological base. Its growing military capability includes the fourth largest armed forces in the world and new, expanded capabilities, including a nuclear attack submarine leased from the Soviet Union.

Since 1981, the US has increased its high-level dialogue with India to expand economic, commercial, and high technology ties. The US is India's largest trading partner; in 1988, India's exports to the US were $3.2 billion and US exports to India totaled $2.5 billion. We have also begun cooperation with India in defense technology transfer, as India seeks to increase its indigenous production capability and to reduce dependence on foreign, primarily Soviet, sources of supply.

Our $25 million development assistance program to India for FY 90 is focused on science and technology cooperation. The World Bank and the Asian Development Bank, to which the US is a major contributor, are the primary sources for development aid to India. We also have an IMET program of $400,000 which encourages contact between Indian and US military services

Bangladesh: US interests in Bangladesh have historically centered on humanitarian concerns and economic development. Bangladesh is one of the world's poorest countries, with a per capita income of only $160. It continues to be extremely vulnerable to natural disasters such as floods and drought.

Last fall, 25 million people were left homeless by flooding which inundated 75 percent of the country. Our economic assistance program of $55 million in development assistance and $79 million in PL 480 food aid is aimed at increasing agricultural production, expanding employment, and reducing population growth.

Politically, Bangladesh is struggling to transform itself from a system dominated by the military and the ruling party to one which is more broadly-based. The US has made clear that Bangladesh's political progress is important for US-Bangladesh relations. The Administration supports efforts by the US Congress to take into account the development of Bangladesh's democratic institutions when considering US assistance levels. Our military assistance to Bangladesh has been limited to a modest IMET program to encourage military professionalism.

Sri Lanka: Sri Lanka's strong democratic tradition -- recently reaffirmed in presidential and parliamentary elections -- is an abiding link between our two countries. We are requesting $18 million in development assistance, $16 million in PL 480 food aid, and $200,000 for military training for Sri Lanka in FY 90.

Ethnic strife which erupted in 1983 between the majority Sinhalese and minority Tamil communities still plagues Sri Lanka, as does violence within the Sinhalese community by the radical "Peoples' Liberation Front" (JVP). We continue to support efforts to resolve the violence, which has left 1500 people dead this year alone.

Despite high literacy and life expectancy, Sri Lanka remains a poor country, with a per capita income of less than

$400. Our assistance program centers on improving agricultural productivity and promoting private sector development.

Nepal: The US and Nepal have a history of good relations. Nepal exercises a moderating influence in the Non-Aligned Movement and is a key contributor to international peacekeeping forces such as the U.N. Interim Force in Lebanon (UNIFIL) and the U.N. Good Offices Mission to Afghanistan and Pakistan (UNGOMAP). It began a two-year term on the U.N. Security Council in January 1988.

Nepal's difficult terrain, isolation, lack of resources, and high population growth are obstacles to development. Our development assistance program of $12 million for FY 90 supports agricultural development, improved health care, and education programs. We also are requesting $125,000 in IMET to promote military-to-military links.

Thank you for this opportunity to review our programs in the region and I look forward to your questions.

STATEMENT OF CAROL C. ADELMAN

Mr. Chairman, Members of the Subcommittee, I am pleased to appear before you today to testify on A.I.D.'s proposed FY 90 programs for the Middle East, Pakistan and Afghanistan.

In total for these programs, the Administration is proposing ESF of $2.4 billion, of which $1.2 billion is planned for Israel and $815 million for Egypt. Our 1990 Development Assistance request for this region is $119 million. Further, we are requesting $359 million in PL 480 support.

Purposes:

A.I.D.'s programs for FY 1990 in these countries will serve four broad purposes:

-- By providing aid to Israel and moderate Arab nations we will support a continuing commitment to achieving peace in the Middle East.

-- By providing assistance to Pakistan and, through our cross-border assistance program to Afghanistan, we will continue to assist the Afghan people as they attempt to re-establish an independent nation following the Soviet withdrawal.

-- By providing assistance for economic adjustment and growth, we will strengthen possibilities for economic stability, and in turn political stability. At the same time, we will help alleviate poverty and provide market and investment opportunities for U.S. business.

-- By providing humanitarian and relief assistance we will reflect our compassion for victims of conflict in the region.

Objectives:

The justification for A.I.D. programs in these countries is based on security interests, economic and commercial objectives and humanitarian concerns.

U.S. National Security Interests

A.I.D.'s programs serve national security objectives of the United States.

-- The largest recipients of economic aid, Israel and Egypt, are key players in the peace process. Both are undergoing economic adjustment. It is important for the U.S. to continue support for Egypt and Israel in FY 1990 at levels of recent years.

-- In addition to Israel and Egypt, the U.S. assists moderate Arab nations which are vital to stability in the Middle East -- Jordan, Tunisia, Morocco and Yemen. These moderate nations provide valuable support for peace in the region. It is essential that the U.S. continue its support for these countries to help them strengthen their economies and sustain their participation in the peace process.

-- The U.S. also supports modest programs in the West Bank and in Lebanon, where open conflict is a persistent source of instability. A.I.D. relief and development programs, managed by private voluntary organizations such as Save the Children, demonstrate continued U.S. concern and provide help for people affected by the current violence.

-- Another security issue for the United States is the free movement of international shipping in the Persian Gulf. Much of the free world's oil flows through the Persian Gulf, providing an essential resource to the global economy and ultimately affecting the U.S. economy as well. U.S. access to the Gulf and ability to assure freedom of shipping depends on the cooperation of moderate Arab nations in the Gulf. In this respect, Oman, a recipient of ESF assistance in accordance with the current access agreement, has been and will continue to be particularly helpful.

-- The Soviet withdrawal from Afghanistan represents an important victory for the Mujahideen and for the right of national self-determination. Pakistan's steadfast support has been essential to this victory. Continued U.S. support for refugee resettlement will demonstrate our commitment to humanitarian assistance in the transition to an independent Afghan state and to restoration of a Pakistani economy free of the heavy burden of refugees.

U.S. Economic and Commercial Objectives

A major objective of the United States is to encourage economic growth and free market-oriented economies. This reinforces economic and political stability and can lead to increased trade and investment for U.S. entrepreneurs.

In large measure, the challenge in the Middle East is to diversify the region's economies, reducing their dependence both on key commodities, such as oil and phosphates, and on remittances from workers in oil-exporting countries of the Gulf. The Middle East confronts difficult long-term economic problems and, in most cases, sustained growth will depend on strengthening policy frameworks that will open economies to market forces, reduce government regulation and increase the role of the private sector.

The economies in the region also offer potential markets for U.S. products and technology, and opportunities for U.S. investment. Egypt and Israel have initiated reforms that will require billions of dollars of new investment over the next decade. Jordan, Morocco, and Tunisia offer skilled labor forces in light manufacturing and high tech service operations. The Gulf States and Yemen are investing in infrastructure and petrochemical facilities which are of considerable interest to U.S. investors.

Our objective in the Middle East then is to assist the economic policies, institutions and infrastructure needed for the economic transformation that has begun in those countries and to support the trend toward free market principles. Diversified economic growth is essential to reduce dependence on uncertain oil markets and to provide employment to rapidly growing labor forces.

For Afghanistan, the goal is to restore a free and open economic environment. This will mean a complete national reconstruction. In Pakistan, where we are very encouraged by the economic reform and social sector objectives of the new Bhutto Government, there will also be major adjustments as nearly three million Afghan refugees depart.

U.S. Developmental and Humanitarian Objectives

While most of the countries in the Middle East have per capita incomes well above the average for Africa and Asia, many of the social indicators demonstrate there is still considerable deprivation in the region. For example, in Yemen, one of the least developed countries in the world, infant mortality rates are among the highest anywhere and only slightly below Ethiopia. In Oman, life expectancy is only 54 years, a rate that falls below the level of Burma. In Egypt, the population growth rate from 1980-86 averaged 2.7%, above both Bangladesh and India. Throughout the region, female educational enrollment ranks below other developing countries and far below enrollment for males. Helping to alleviate poverty through support for economic growth and sustainable services such as health and education is one of our major objectives.

The challenge in Afghanistan and Pakistan will be the orderly resettlement of refugees. This is not a task the U.S. will be able to mount on its own. It will be necessary to rely on the U.N. to provide leadership and to marshall resources. We intend to assist with this effort.

Prospects in this region for achievement of the United States' broad security, economic and humanitarian objectives can be greatly enhanced if these countries move toward acceptance of democratic principles, including freedom of speech, press and religion. Such fundamental values can, of course, be politically sensitive, and change is sometimes difficult. However, there has been important progress in the region. Pakistan and Tunisia are examples. To the extent we can, it is important for A.I.D. to support this progress.

Recent Growth Performance in the Middle East

Economic growth and development throughout the Middle East have obviously been hindered by the political uncertainty in the region, declines in oil production and revenues, and also by inappropriate economic policies and institutions. In recent years, both domestic and foreign investment rates have been low. Demand for labor has fallen off as a result of lower oil prices, conflicts in the region, and low levels of investment. As a result, all Middle East countries have experienced a significant slowdown in economic growth. While all enjoyed rapid growth of 7% or higher during the late 1970's and early 1980's, growth during the last several years has slowed to between 3 and 4% for Morocco, Tunisia, and Yemen. Economic growth since 1985 has averaged less than 2% for Israel, Egypt, Jordan, and Oman.

Recognizing the seriousness of this slowdown in growth, several countries in the region have taken the first steps toward economic reform. Morocco and Tunisia in particular have made impressive strides in structural adjustment measures, involving better macroeconomic balance and greater reliance on market forces. More recently, Jordan implemented several significant reforms and began serious negotiations with international organizations to restore fiscal stability. Egypt and Israel are also making some progress, but the excessive size of the governmental sectors and pervasive government controls continue to restrict progress. Egypt's reluctance to move more quickly in implementation of economic reforms has slowed its capacity to restore overall economic viability and acceptable economic growth.

Pakistan's growth performance has actually been quite strong, considering the heavy burden of Afghan refugees--averaging 6.7% per year between 1980-1986. Pakistan recently signed an IMF Structural Adjustment Facility committing it to fiscal, trade and financial measures designed to address budgetary imbalances. Our concern in Pakistan is with progress in the social sectors, such as education (and particularly female education), where we see emerging constraints to continued growth. Nevertheless, we are encourged by the commitment of the Bhutto government to make difficult economic reforms at the same time it undertakes increased development efforts in the social sectors.

A.I.D.'s Emphases in the 1990's

A.I.D. programs during the last few years have focused increasingly on assistance to structural adjustment, and this emphasis is expected to continue in the 1990s. The reasons for this are twofold: (1) peace and political stability in the long run will not be accomplished without economic stability in the countries of the region; and (2) it is increasingly evident to the leaders of these countries that state-controlled economies have not worked and that liberalized, market-led economies are needed for growth.

A.I.D. has found that it has a role in supporting reform programs by assisting in the process and helping to ameliorate the dislocations caused by it. For example, we can help through policy analyses and discussion, and by providing balance of payments support, technical assistance and training, and funds for the infrastructure needed for market economies.

The structural adjustment process can cause hardship over the short term for some parts of the population. For example, rising prices for food and other basic commodities can create problems for the poor. In addition, dismantling of public institutions and parastatal companies can result in increased unemployment. In Egypt, Morocco and Tunisia, governments have mounted "Safety Net" programs using A.I.D.'s P.L. 480 commodities and local currencies generated through program assistance to make food available to those who need it and to fund work programs for the temporarily unemployed.

The struggle to liberalize the economies of the Middle East and Pakistan is supplemented in our A.I.D. programs by activities to provide basic services such as health, family planning and education. But even here our assistance activities work toward establishment of sustainable systems which include the private sector and share the cost burden among those who have the ability to pay for services.

Country Programs

Israel -- $1.2 billion of ESF is requested to assist Israel.

In July 1985, assisted by a $1.5 billion ESF supplemental, the Government of Israel adopted a comprehensive stabilization program. The program featured subsidy cuts, price adjustments followed by a freeze, reductions in the government work force and government expenditures, tax increases, temporary downward adjustments in real wages, and a currency devaluation.

The most dramatic effects of the program were a sharp cut in the inflation rate (below 20% during 1986), a reduced budget deficit, restrained spending growth, and, initially, lowered unemployment. Also, Israel's external debt has plateaued and debt burden as a proportion of GDP declined. During late 1988, the Israeli government succeeded in refinancing $4.75 billion of its FMS debt to the United States, thus saving $150 million a year on its interest payments. Despite these successes, Israel's economy is once again under pressure.

1988 ushered in the Intifada (Palestinian uprising). As a result, Israeli labor markets have been disrupted and tourism receipts are down sharply. While the impact of the Intifada on Israel's economy is significant, it should not detract attention from the underlying economic trends that call for further belt-tightening and continued structural reform.

Because of its economic problems, Israel will have to make further reforms in capital markets, de-regulation, taxation, privatization, and the pricing system. They will also have to continue to hold the line on budgetary expenditures and wage agreements.

Egypt --$815 million of ESF is requested to assist Egypt with economic reform and social development.

Egypt remains central to our primary objectives of regional peace and stability. But there is also a strong economic and development rationale for our assistance program.

Egypt's short term economic prospects are of serious concern. During this past year overall growth has declined, resulting in a slight decrease in per capita income. There is evidence that unemployment and inflation are rising. The country confronts a large foreign debt which imposes an immense debt service burden. Government controls on Egypt's productive activities, while somewhat lessened, continue to hamper development. The reform targets indicated in the 1987 IMF Standby Arrangement have not been reached. Although progress continues in some selected sectors, such as tourism and agriculture, overall reform progress has slowed.

Significant areas requiring attention include moving towards market pricing in energy and industry, establishing competitive interest and exchange rates, reducing the budgetary deficit, and liberalizing governmental controls. Reforms in these areas are critical to revitalizing Egypt's economy and laying the basis for sustained growth. We support the IMF and World Bank efforts to stimulate reform. However, even with a serious reform program, medium term recovery of the Egyptian economy will not be easy. It will require the concentrated cooperation of Egyptian officials, international institutions and bilateral donors.

The Egyptians have recently proposed new reform measures which include liberalization of the industrial and agricultural sectors as well as ways to reduce the budget deficit.

Implementation of these reform measures would greatly strengthen Egypt's economy and the U.S. has indicated its support of these efforts. We continue to urge the Egyptians to strengthen and consolidate these measures into a comprehensive program that can attract international support.

In broad terms, A.I.D.'s strategy in Egypt is to help increase economic growth and productivity, particularly in agriculture and industry, by removing the constraints to the operation of market forces, while assisting the GOE in maintaining basic services to its people. The key elements of this growth strategy are:

-- economic reform to provide the incentives for production increases and an expanded role for the private sector;

-- increased economic productivity, particularly in agriculture and industry; and

-- cost-recovery in provision of legitimate government services, to promote efficient use and reduce the budgetary burden.

A.I.D. will continue to give major attention to supporting Egypt's macroeconomic reform program. We plan to provide fast disbursing assistance in the form of commodity assistance ($200 million) and, provided economic reforms are sufficient, cash transfers ($115 million) to help meet severe balance of payments pressures. Programs for promoting macro and sector policy reform programs are also critical to fostering sustained economic growth.

Agriculture and private industry are sectors which offer considerable potential for growth, employment and improved productivity. In addition to work in irrigation and agricultural research, important agriculture policy reforms are supported under the Agricultural Production and Credit project. These will continue in FY 90. For the private sector, A.I.D. supports policy changes focused on improving the investment climate and decreasing excessive Government controls. A private enterprise sector project in FY 90 will establish a policy reform framework to address private sector constraints. The newly established Partnership in Development project will develop procedures for transfer of state-owned enterprises to the private sector. The Private Sector Commodity Import Program will continue to procure U.S. equipment and material.

Development of human resources involves investments in health, population, and education. In the health sector, A.I.D. is helping to establish a more rational health financing system with greater private sector participation. A.I.D. is also supporting the expansion of private medical practices and health delivery systems. Population efforts will emphasize establishing more effective policies and technical and financial support for large scale, nation-wide information and delivery systems. A.I.D. also plans a major follow-on to the Basic Education project which will endeavor to improve the quality, relevance and efficiency of the basic education system through helping to establish a National Curriculum Center, an education planning unit and an educational facilities planning unit.

In addition, A.I.D. will continue to help improve the efficiency of Egypt's large infrastructure, particularly with operation and maintenance and cost recovery. If energy prices continue to increase, A.I.D. will provide incremental funding under the Power Sector support project. Finally, A.I.D. is setting aside resources to continue support of local development activities managed by the governorates and local councils.

Jordan - $35 million ESF is requested to solidify and strengthen the private sector thrust of the A.I.D. program in support of the Jordanian government's efforts to liberalize its economy.

Jordan's economic fortunes have declined in tandem with the continuing regional recession brought about by the decline in global oil prices and production. GOJ attempts to shelter Jordanians somewhat from the recession by purposefully maintaining high levels of deficit spending between 1984 and 1986 came at the high cost of incurring a large foreign debt that Jordan can no longer afford to service and a fall in the value of what had been a stable (but overvalued) currency.

In 1988, per capita income fell for the sixth year in a row and Jordan's looming foreign exchange crisis came to a head in June, as official convertible foreign currency reserves fell to a dangerously low level. Since then, the Jordanians have allowed their currency to float, resulting in a 40% devaluation. They have deregulated interest rates on deposits, allowed interest rates on loans to be raised to 9%, and reformed licensing and investment regulations.

A.I.D. is assisting Jordan to make basic structural adjustments and to shift the role of its private sector to become the central "engine for development". A.I.D.'s new project assistance focuses on financial market improvement and on trade and investment promotion. A Commodity Import Program ($18 million) which represents most of the increase over the FY 1989 level will provide foreign exchange for private sector purchase of capital equipment and materials to increase productivity in the manufacturing and service industries.

Following the King's recent visit, President Bush agreed to provide additional food to support the Jordanian economy through $27 million of Sec. 416 and and $65 million of GSM programs.

Lebanon - $2 million ESF and $12.744 million in PL 480 are requested to continue programs aimed at relieving those disadvantaged by the war and to assist in relief activities through Private Voluntary Organizations. Because of security concerns, A.I.D.'s Representative in Lebanon has been withdrawn. We believe continuing programs can be effectively managed by AID/Washington through the PVO's.

Recently the Ambassador has declared a disaster in Lebanon, following intensive shelling, and the U.S. will be providing approximately $500 thousand of disaster relief. The U.S. will continue to monitor this tragic conflict and provide humanitarian assistance as our limited role permits.

Morocco -- $12 million DA and $15 million ESF is requested under the umbrella of support to economic structural adjustment to assist in development in the agriculture sector, build Moroccan capability to deal with the locust plague, expand and improve voluntary family planning services, provide training for managers and technicians in many sectors, and facilitate private entrepreneurs' access to credit. In addition, local currencies generated through the PL 480 program will support local costs of agriculture projects and help to offset the dislocations caused by the restructuring program.

Oman -- $20 million of military access agreement related ESF will be used to develop Omani capability to manage its water resources and to diversify its oil based economy by expansion of the fishing industry.

Tunisia -- $12.5 million ESF is requested to continue assistance to the economic structural adjustment program. These resources will provide technical assistance and training focussed on development of a market based, export led economy. Local currencies generated through the Commodity Import Program and PL 480 programs will finance local expenses for agriculture activities and provide work for those temporarily unemployed because of the structural adjustment program.

Yemen -- $21.5 million DA is requested to assist the country in diversifing its economy in anticipation of the post-oil era. These resources will support technology transfer, policy analysis and training focused on increasing agriculture development, improving Yemen's basic education system and increasing health care delivery services.

The Asia and Near East Bureau's Regional program also includes proposals for $12 million of ESF for the West Bank and Gaza program and $5 million for Middle East Regional Cooperation. The West Bank and Gaza program is designed to demonstrate American concern for the social and development needs of Palestinians and to support efforts to peacefully resolve the Arab-Israeli conflict. The program is implemented primarily by five U.S. PVO's, which continue to operate effectively despite the disruptions of the Intifada. The Middle East Regional Cooperation program is designed to promote mutual cooperation and understanding between Israel and its Arab neighbors. The program has successfully brought Egyptians and Israelis together to work cooperatively on development problems of mutual concern. Significant research has been generated by this program in arid land management, exploitation of marine resources, and health; and close working relationships have developed between scientists of both countries.

Afghanistan --The Administration's fiscal year 1990 request for Afghanistan consists of $35 million of DA, $35 million of ESF and $35.566 million for P.L. 480 Title II food.

A.I.D. began humanitarian assistance to resistance-controlled regions of Afghanistan in 1985 while the Soviets still occupied the country. From then until the period of the Soviet withdrawal, the objectives of A.I.D.'s cross-border program (based in Pakistan) have been to: (1) reduce the flow of refugees entering Pakistan, (2) alleviate the suffering of the population inside Afghanistan, and (3) help create viable Afghan institutions for agriculture, health and education.

Our program was nationwide in scope, seeking to touch all Afghans who were in need, demonstrating U.S. commitment to the Afghan cause. We worked closely with the committees set up by the resistance Alliance to deliver services and goods in the areas of health, education, agriculture, and general commodities. We also worked closely with European and U.S. private, voluntary organizations (PVOs) in providing vital medical care and training to Afghans.

With the announcement of the Soviet withdrawal, A.I.D. has begun to focus its program on supporting the resettlement of millions of returning refugees and displaced persons. A.I.D.'s principal objective is to ensure that conditions inside Afghanistan are such that existing and returning populations are able to sustain themselves and begin the enormous task of rebuilding a nation.

A.I.D. has devised a strategy that meets this objective and has in the past year redesigned its project portfolio to fit the needs of a new situation. Funds will be used to repair damaged or neglected irrigation systems in efforts to raise agricultural production. A.I.D. is also seeking to revitalize the Afghan agricultural sector by promoting private sector trade between Pakistani suppliers and Afghan traders in farm inputs (fertilizer, seed, machinery).

In the health sector, A.I.D. is training Afghans in basic preventive health techniques (including immunization) and equipping health units with needed medical supplies. Our commodity export project procures food packs for consumption inside Afghanistan, trucks to carry essential commodities, and also funds the repair and construction of bridges and roads to enable life sustaining supplies to pass.

To a lesser extent, A.I.D. is funding the primary education system, textbooks, literacy and training (both in Pakistan and the U.S.) in skills relevant to Afghan resettlement. This project has been successful. The Afghans want it, like it, and perceive it as a counter to the Sovietization of thousands of Afghan children.

Using fiscal year 1988 funds (approximately $200,000) and the education project as a vehicle, A.I.D. has also assisted the U.N. effort in launching a mine awareness program for Afghan refugees.

Also using fiscal year 1988 funds, we are supporting a small ($200,000) pilot activity providing agricultural assistance to help eliminate poppy production. If our efforts prove successful, A.I.D. would explore opportunities to expand this initiative.

In addition to appropriated funds, we are requesting P.L.- 480 food to feed refugees in the camps in Pakistan or on their return during repatriation. As in the past, this program will be implemented through the World Food Program.

In providing our humanitarian resources to the ministries of the Afghan Interim Government, A.I.D. supports Afghan efforts to fashion a stable, broad-based government. We hope our assistance may foster unity, and to the extent democratic and pluaralistic institutions can be encouraged, A.I.D. is prepared to fund Afghan initiatives in these areas. We will look to non-governmental organizations to assist us and the Afghans in this arena.

The task of rebuilding Afghanistan calls for an international response. To this end, the United Nations is organizing itself to provide coordination and leadership. The U.N. has developed an action plan of activities (such as agriculture production, mine awareness, narcotics elimination, repair of roads and irrigation systems) to be conducted largely inside Afghanistan, and has created a transportation and logistical system. However, though it has made some progress, it will take considerable time before the U.N. can put in place a major rehabilitation effort. It is constrained by a lack of resources and agreements with the Government of Pakistan and the Afghan Interim Government to deliver supplies.

Our policy of supporting the U.N. and encouraging other donors to contribute to U.N. appeals has not altered. The USG does not have all the resources that will be necessary to rebuild Afghanistan. Even so, this Administration is in the process of taking a sympathetic look at the need for additional humanitarian assistance and intends to work closely with the Congress on this issue. A.I.D. will continue to support and complement U.N. programs, avoiding duplication where possible, and sharing our experience and expertise.

Pakistan - $250 million of ESF, $50 million of DA, and $80 million of PL 480 is requested to support a variety of U.S. interests in Pakistan. The dramatic resurgence of democracy in Pakistan and the peaceful transfer of power to the Pakistan Peoples Party (PPP) through a legitimate democratic process demonstrates the strength of the democratic ideal in Pakistan. Fair elections and the strengthening of free political institutions in Pakistan are certain to improve the conditions of the Pakistani people, enhance the country's long-term political stability, economic growth and social welfare, and benefit the long term interests of the U.S.

However, this new democracy is fragile and requires close and continuing support. The economy will remain an especially vulnerable point. Despite several years of good economic growth, Pakistan still is one of the world's poorest countries with per capita income estimated at only $390 per annum. As a result of structural constraints, changing international conditions, and previous government policies, future economic expansion is in jeopardy. Recognizing its economic problems the new government has agreed to an IMF/World Bank Supported Structural Adjustment program which carries with it increased external assistance. At the same time, the new Government understands that large investments are required to improve social services, that will ultimately fuel economic development in Pakistan. Most indicators of social welfare in Pakistan are extremely low even with respect to other countries in the region: 76% of the work force and 81% of the female population is illiterate, infant mortality during the first year after birth averages 100 children per every 1000 births, and life expectancy at birth is only 54 years.

U.S. assistance objectives in Pakistan have been clear, consistent and, since 1981, packaged into multi-year programs. The current six-year program, initiated in FY 1988, will total $4.02 billion in economic and military assistance over six years. The majority of funding for this program (61%) is economic rather than military assistance. The $2.28 billion economic assistance, administered by AID, is built on the existing activities from the previous five year program in the sectors of energy, agriculture, health and population, and training and education. From the beginning, the program has had multiple objectives including: (1) provision of faster disbursing short-term balance of payments; (2) support for longer term development efforts; (3) assistance to eradicate poppy production; and (4) aid to lagging areas on the Afghan border which have been given a high Pakistani political priority. In each of the sectors where U.S. assistance is provided there is a high degree of congruence between the priorities of the new Government and AID programs. In the areas of education, basic health, and private sector development, the potential exists for unprecedented progress.

To date, AID programs have been very effective in supporting the U.S. interests in both Pakistan and the region. For example our economic assistance programs have:

-- Delivered critical balance of payments support and facilitated macroeconomic policy reforms needed to sustain economic growth,

-- Accelerated growth and increased private sector participation in the key economic sectors such as agriculture and energy,

- -- Trained over 6,000 Pakistanis and increased child immunization from 5% to 67% since 1982,

- -- Financed over $500 million of U.S. exports including 1.25 million metric tons of U.S. wheat in 1989 in response to an abnormally small harvest.

These contributions are widely recognized in Pakistan and represent an important and tangible part of the relationship between our two coutries.

The Pakistan economy is at a crossroads and its strength and stability is likely to take a more central role in U.S.-Pakistan relations. During the 1980s, economic growth performance was commendable -- over 6% per annum and significant progress was made in domestic deregulation. Nevertheless, the economy also exhibited key structural weaknesses including large fiscal imbalances, a narrow export base, and inadequate exchange reserves. Since June 1988 with IMF and IBRD financial support the Government has been implementing a comprehensive medium term macroeconomic adjustment and structural reform program designed to sustain economic growth while restoring domestic and external financial viability. The principal elements of this program are fiscal reform and reduction of the budget deficit, trade liberalization, and policy adjustments to reduce price distortions, deregulate production and investment, and enhance economic efficiency. As the new Government prepares its first full budget this June, difficult decisions will be required to mobilize fiscal resources by broadening the tax base, reduce subsidies for production inputs such as energy, fertilizer and water in order to free funds for expanded social services, and promote private sector initiative and investment.

The Soviet withdrawal from Afghanistan does not diminish the price Pakistan has paid and continues to pay for standing up to Soviet aggression and taking in three-to-four million Afghan refugees. The cost in financial terms alone was estimated at $300 million last year. Our support for the new democratic Government of Pakistan can be no less than its military predecessor and our existing commitment must be honored.

The Importance of Staying the Course

A.I.D.'s programs in the Middle East, Afghanistan and Pakistan are an integral part of overall U.S. foreign policy in the region. With a new Administration in the U.S. and hopeful signs of new ideas from the Israelis, the Egyptians and the Palestinians, it is important for us to continue our support. Similarly, the Soviet withdrawal from Afghanistan presents a major challenge of refugee resettlement and nation building. Thus, the opportunities in the region for advancing broad U.S. interests are falling in place, but difficult obstacles remain and the need for substantial U.S. assistance will continue.

ISRAELI ELECTION PROPOSAL FOR WEST BANK AND GAZA

Senator LEAHY. Mr. Hare, I read in the press that the administration has been carrying on substantive discussions with the PLO in Tunis about the Israeli proposal for elections on the West Bank and Gaza.

A two part question: Is any progress being made? And are the Palestinians seriously discussing the possibility of elections in the occupied territory?

Mr. HARE. Mr. Chairman, may I first convey the regrets of John Kelly that he cannot be here for your committee this afternoon. He does anticipate working with you in the future and cooperating with you.

Senator LEAHY. Please send my greetings and explain to him that I was concerned that if we delayed too long we would get out of the cycle and not be able to complete our hearings.

Mr. HARE. With respect to your specific question, Mr. Chairman, we had our third formal substantive meeting with the PLO in Tunis on June 8. Our Ambassador in Tunis, Ambassador Pelletreau, leads our delegation in those talks. During the last session the major focus of the discussion was indeed on the elections proposal which has been endorsed by the Israeli cabinet. The discussion was serious and probing. Those discussions will continue.

We are, of course, trying to persuade all parties that the Israeli elections proposal deserves a response, that it does represent an excellent opportunity to move the peace process forward.

Senator LEAHY. I ask because I was in Israel in January. I met with a number of people over there, including Prime Minister Shamir. Prime Minister Shamir told me that if Palestinians associated with the PLO were to be elected in the West Bank or Gaza, then the Israeli Government would sit down and negotiate with them even though they were associated with the PLO, as long as they were elected.

Is that the understanding the State Department has of the Israeli position?

Mr. HARE. Certainly if you are going to have free and fair elections and have Palestinian interlocutors elected as a result of that process, one really could not see how they could proceed if those people who were elected were subsequently somehow refused the positions to which they have been elected in the negotiating process.

So I think that is pretty well understood.

Senator LEAHY. Even if they were associated with the PLO?

Mr. HARE. I would defer to the Israeli Government for their official position.

Senator LEAHY. But is that your understanding of their position? I am not suggesting you tell them what their position should be, but is that your understanding of the position they have taken?

Mr. HARE. Our assumption is that those people who are elected will be allowed to become engaged in the negotiations.

Senator LEAHY. What is the adminstration policy regarding the role of the PLO in the peace negotiations?

Mr. HARE. Excuse me, Mr. Chairman?

Senator LEAHY. What is the administration policy regarding the PLO role in the peace negotiation itself? Does it go beyond the Tunis meeting? What is it?

Mr. HARE. I think the essential point at this time, Mr. Chairman, is to try to get a dialog started between the Israelis and the Palestinians in the territories. I think that is the central focus of all of our efforts at this time, and that is the first necessary step that has to be taken.

SOVIET AND ISRAELI RELATIONS

Senator LEAHY. In your statement you speak of Soviet new thinking. What are the signs of Soviet new thinking regarding relations with Israel? You mention the Soviet role in the Middle East peace process, for example. What do they say about the Israeli proposal for West Bank elections?

Mr. HARE. We will be having further discussions, by the way, Mr. Chairman.

Senator LEAHY. On June 15?

Mr. HARE. June 15 and 16 with the Soviets at an experts level. Indeed, the elections proposal has been discussed with the Soviets when Secretary of State Baker was in Moscow fairly recently.

Certainly the Soviets indicated at that time that this proposal was worth looking at.

Senator LEAHY. What proposal? You mean the Israeli proposal on elections?

Mr. HARE. The elections proposal, and I would say in a general sense.

Senator LEAHY. Other than to say they would look at it, did they not say that they liked it, disliked it, or anything else like that?

Mr. HARE. I think the words were, "Worthy of study."

In any event, I would expect that that would be a focal point of the discussions at the end of this week.

Senator LEAHY. Are you going to ask the Soviets to use the influence that they have with the PLO and Arab parties to do something about the possibility of elections or at least negotiations for elections?

Mr. HARE. We believe that the Soviets have to really define their position if they are to play a constructive part in the peace process itself. This relates not only to what sort of relationship they establish with Israel. We, of course, strongly believe and have urged them to establish full diplomatic relations with Israel. That certainly is a necessary first step if the Soviets expect to play a full role.

We would also hope that the Soviets in their discussions with all of the parties, the Arab parties in the region, would indeed urge that people look at those practical steps that need to be taken if the peace process is going to be initiated. We will be discussing those points further with them at the end of this week.

PAKISTAN'S NUCLEAR CAPABILITIES

Senator LEAHY. Let me change countries a bit.

Last March the administration gave the impression it did not believe it would be able to certify this year that Pakistan is not building a nuclear device. Of course, if they could not make that certification, it triggers the Glenn-Symington amendment which cuts off aid to Pakistan. At least that is the way I understand it.

Prime Minister Bhutto declared in her address to the joint session that Pakistan has no nuclear device, nor does it have any intention to acquire one. Does the administration accept that statement?

Mr. HARE. We welcome that statement, indeed.

Senator LEAHY. I know you welcome the statement, but do you agree with the statement. I am sure you would not have been happy if she stood up and said, look, we have 12 nuclear weapons, we are pushing for 20, nor am I suggesting that she ever had said anything like that.

Everybody welcomed the statement, but do you believe it?

Mr. HARE. Mr. Chairman, President Reagan in November of last year did make the certification under the Pressler amendment that Pakistan does not possess nuclear devices. This is an annual requirement and will have to be repeated this year in approximately the same time frame. At that time, the President will have to make his decision based upon all available evidence that is given to him at that time.

Senator **Leahy**. Do you anticipate that it will be?

Mr. **Hare**. I am not going to forecast with any degree of certainty at this point, but I would repeat that we certainly do welcome the Prime Minister's statements before the joint session of Congress and in other meetings that she had while she was here in Washington.

Senator **Leahy**. Would the administration be able to make that certification today?

Mr. **Hare**. It is the President that makes the certification based upon all available information that is provided to him at that time. At this time, I cannot say that I am right in that position right now to pull all of the information together to give a recommendation to the President, but I do not want to missteer you, Mr. Chairman, in the direction of believing that—it is a little bit of a hypothetical question that you have asked.

I do not want to steer you in the direction of saying or believing that we would not be able to make the certification at this time.

Senator **Leahy**. Well, is it true that during the past few years our nuclear nonproliferation policy was looked at somewhat differently toward Pakistan because of their great help to us in supplying the Afghan rebels? Would it be safe to say that our scrutiny may have been at least different because of that?

Mr. **Hare**. I would disagree, Mr. Chairman.

Senator **Leahy**. So they got exactly the same scrutiny as any other nation would have whether they were helping us or not?

Mr. **Hare**. It was given the utmost scrutiny at the time of the last certification.

Senator **Leahy**. Do we have full scope IAEA safeguards on the Pakistan nuclear program?

Mr. **Hare**. They are not safeguarded; no, sir.

Senator **Leahy**. They are not what?

Mr. **Hare**. They are not safeguarded.

Senator **Leahy**. The same with the Indian nuclear program, for that matter. They are not safeguarded either; is that right?

Mr. **Hare**. That is right. Some of the facilities may be safeguarded.

Senator **Leahy**. Some are, some are not.

Mr. **Hare**. That is right.

Senator **Leahy**. So is it accurate to say we do not really know the status of the Pakistan nuclear program today?

Mr. **Hare**. I would say based upon my knowledge that we have a fairly good idea.

Senator **Leahy**. Well, we obviously have some areas we will have to go into in a closed door session perhaps just for Senators only, because I have a series of other questions that I wish to ask you, and I am concerned about even asking the questions in an open session. We may have to have at some point a Senators only briefing on this specific area.

AID TO PAKISTAN

I have taken a fair amount of time. I will just go to one other thing. Pakistan is now our third largest aid recipient after Israel and Egypt. According to the congressional presentation document for fiscal year 1990, you are asking for $626 million, $240 million for military aid, $250 million for ESF, and only $50 million for development assistance.

Your statement for today's hearing asks for $241 million for military assistance and $380 million in economic aid.

Has there been a change in the planned aid levels between the time of the congressional presentation document and today?

Dr. Adelman.

Ms. ADELMAN. No; $380 million is the total of which $50 million is DA, with the ESF at $250 million, and the Public Law 480 at $80 million. That is where the $380 million total comes from.

Senator LEAHY. What about the FMS program? With the Soviets out of Afghanistan, does Pakistan need that large an FMS program?

Mr. HARE. Mr. Chairman; yes, we do. The Government of Pakistan also believes that they need this type of military program.

I would point out that simply because the Soviets have withdrawn from Afghanistan, that does not mean that this is a threat-free environment in which Pakistan finds itself. It does have, I believe, very legitimate defense needs.

Senator LEAHY. Well, I have not visited Pakistan, and I would not expect to be an expert there even if I were to make a short visit. But, I have read a considerabe amount of material in preparation for these hearings and in preparation for Prime Minister Bhutto's visit here. I had hoped I might have a chance to talk with her because I see that some of the real dangers—the real enemies of Pakistan—are the huge poverty rate, the enormous illiteracy rate especially among women, the joblessness rate, and disease.

Then I look at the budget request and I see this big FMS allocation and very little for the kind of aid that might do something to attack poverty, illiteracy, joblessness, and disease.

Are we really attacking the real problems, or are we just saying that we will make sure that Pakistan is able to be a major military player on the Indian subcontinent?

Mr. HARE. Mr. Chairman, if you look at this in some sort of historic perspective, I believe you will see that the ratio between military and economic assistance has in fact been changing. At this point it is roughly 60 percent economic, 40 percent security. In the early 1980's, the 1982 to 1987 period, it was roughly 50/50 percent.

I would certainly believe that the Pakistani Government itself would also—to the extent that it is possible without jeopardizing its legitimate defense needs—like to see that trend continue over time; but we simply do not believe that this is the moment for a sharp readjustment of the ratios.

Senator LEAHY. Thank you. I appreciate your testimony very much.

Senator Kasten.

ESF CASH TRANSFER TO EGYPT

Senator KASTEN. Mr. Chairman, thank you.

Dr. Adelman, when you appeared before us earlier this year and in subsequent conversations with the subcommittee staff you have indicated to us that disbursement of the ESF cash transfer to

Egypt which had been held up would be disbursed in tranches, one of which would have been in April-May and the other May-June or June-July.

It is my understanding that no disbursements have been made, notwithstanding your having told us during the last meeting that they would be made.

What is the status of this, and why have the disbursements not gone out?

Ms. **ADELMAN**. We had hoped they would go then, and this was our understanding at the time with the Egyptian Government.

As you know, when President Mubarak came here for his visit, just prior to that visit he announced a comprehensive set of reforms that we reviewed and certainly agreed with. They are still in the process of deliberating on those and in the process of implementing them. We hope and expect that that will be resolved very soon.

However, it is not yet resolved, and when it is and they begin the implementation of the reforms, we are fully prepared to release the cash transfer. This is where we stand now. The ball is actually in their court in terms of implementing the reforms, and they are aware of this. We are in discussions with them.

Senator **KASTEN**. We are dealing with one of our, I think, most important allies. Are you going to decide when these reforms have been implemented, or who is going to decide that the reforms have been implemented enough, or are they going to decide who is the policeman, who is the cop?

Ms. **ADELMAN**. I think both governments actually agreed on which reforms are necessary for the release of the cash transfer. We are really in the process now of working out the mechanisms to do that. We do not have disagreement on the actual reforms for the release of the money.

Senator **KASTEN**. If we do not have that disagreement, it seems to me we should go forward with at least some of this money, and I know there are other members of the committee who are concerned.

I have made my point, and we will just try to work with you more directly in the next couple of days.

ISRAEL'S PRE-1967 BORDERS

Mr. Hare, in a recent speech in Washington to AIPAC to the policy conference, Secretary of State Baker omitted mention of some long-held U.S. policies. Specifically, he did not mention the fact that Jerusalem remained undivided and that the United States assumes Israel's return to pre-1967 borders. What is the position of the administration regarding Jerusalem, and what is the position of the administration regarding a return to pre-1967 borders?

Mr. **HARE**. On the issue of Jerusalem, Mr. Senator, the position of this administration remains the same as with previous administrations; that is, we believe that the status of Jerusalem has to be resolved through negotiations in the final status negotiations involving the West Bank and Gaza.

At the same time, we do not believe that Jerusalem ever again should be redivided. We believe in a unified Jerusalem to which people will have free access to the holy places of the city.

On the issue of where one draws the borders, again that is something that has to be a function of the negotiations. We have always felt that when one talks about the exchange of territory for peace that the quality of peace which is achieved through the negotiations is going to affect the land that is going to be involved, so that the position also would remain the same.

Senator KASTEN. In other words, the U.S. position has not changed with regard to Jerusalem, and the U.S. position has not changed with regard to the pre-1967 borders?

Mr. HARE. That is correct, Mr. Senator.

NEGOTIATIONS WITH THE PLO

Senator KASTEN. One of the issues that we have wrestled with has been what kind of actions by the PLO would be harmful enough for us to discuss cutting off negotiations with them.

The Democratic Front for the Liberation of Palestine of the DFLP has claimed responsibility for a recent attempt to infiltrate into Israel. I cannot pronounce the leader's name, but it is Yassar Abdulrabo, Deputy Chief of the DFLP. The reason I picked that name is he also sits on the PLO's executive committee and, I am told, has been the PLO's representative in meetings with the United States.

So, my question is at what point do we start to look at what they are doing as opposed to what they are saying?

Here is a perfect example. This one individual, the Deputy Chief, apparently has been part of some of our discussions. First of all, is this true? Second, do you believe that the DFLP's continued terrorism represents a violation of the PLO's pledge to stop terrorism?

Mr. HARE. Mr. Senator, we have been gravely concerned about the attempted cross-border attacks in southern Lebanon going into northern Israel. There have been a number of these attempts and several in more recent days, one of which you referred to specifically.

These attempted cross-border attacks are claimed by factions of the PLO who find their support coming from Syria basically.

During the recent meeting that Ambassador Pelletreau had with the PLO representatives including with Abdulrabo, we again expressed our very grave concern at the continuation of these cross-border raids, and we have pointed out that such activity cannot help but harm efforts to move the peace process forward and should be condemned by all those who share with us that goal. I am quoting from what we said.

That continues to be our position obviously. To the extent which these sorts of activities take place, it can only compromise and work across our objectives in trying to get the peace process started.

Senator KASTEN. What would they have to do in order for you to stop the State Department language "of deep concern" and "cannot help but lead toward further friction" and simply say stop, you made a pledge to end terrorism, you are now violating that pledge; therefore, we are no longer going to participate in discussions.

It seems to me that these attempted infiltrations about which they are bragging are enough to do that.

Mr. HARE. We have not come to that conclusion yet, Mr. Senator. I understand the importance of your question. I do not want to get into a definition of terrorism. I do not think that is a very productive avenue to go down of what does and does not constitute terrorism.

Clearly I would repeat to the extent that these activities, whether they are directed at the military targets or civilian targets, wherever they are directed, they do jeopardize what we are trying to do. We will continue to make that point very, very clear to the PLO, but I would not want to at this point say this is the line, the specific line, and that is the step beyond which you cannot go in that specific sense.

I think as Secretary Baker has pointed out, when terrorism in the general sense occurs in that manner, we will know it.

Senator KASTEN. Well, if you are unable to point to the line, there are several people on this committee who are becoming more and more impatient with the fact that that line keeps changing.

Specifically, when these terrorist groups brag about their success or what they are about to do in terms of these infiltration groups—they cannot have it both ways. If the State Department is unable to draw the line, I suggest that some in the Senate and the House of Representatives would be willing to draw the line. Then we really have a problem in terms of the executive versus the legislative branch and your ability to continue to negotiate not only in the Middle East but everywhere.

I think we are getting very close to that. There is a frustration and a concern that Palestinian actions are simply not meeting up to the words that were spoken or, I should say, read in order to begin this overall effort.

AID TO INDIA

I have two other questions, Mr. Chairman, and I will put the rest in the record. We are requesting a substantial assistance increase in the program for India.

I do not know, Carol. This may be your question. Now India has been put on the list of countries which we have decided are unfair trading partners. As long as India remains on the unfair trading partner list, do you still feel that we should provide her with increased foreign assistance, or do you work with people at STR who would recommend a reduction from the increased level?

Mr. HARE. Mr. Senator, I will defer to Carol on the question of the amounts being requested. I was not aware of a substantial increase.

We are asking for——

Senator KASTEN. I misspoke. We have a large foreign aid program. We have a large assistance program to India. That is a large dollar amount, not an increase.

Mr. HARE. It is $25 million, Mr. Senator, and it is all directed basically to science and technology.

In addition to that there is a Public Law 480 program, which I believe the request is $85 million; but compared to what we have attempted to do in India in the past this is really, I would consider, a very minimal program indeed.

In any event, I would not want to link this very modest program to the decisions which were taken on 301 actions both under super and the priority list. As I understand it, the 301 actions do not trigger automatic sanctions. We are going to be entering into negotiations with the Indians to try to resolve the various issues of dispute between us.

Senator **Kasten**. Then the answer to my question is no. I am told it is $110 million total.

Mr. **Hare**. Well, $25 million in development assistance and $85 million in Public Law 480.

Senator **Kasten**. That is $110 million will the $110 million go forward, notwithstanding the fact that India is on the unfair trading list?

Mr. **Hare**. That is correct, Mr. Senator.

AID TO MOROCCO

Senator **Kasten**. My final question has to do with Morocco. Morocco, I believe, has been tremendously helpful to us in a number of different areas, most recently in the effort in the Arab league, and concerning increased recognition of Egypt.

I see you are nodding when I say they have been a valued ally and a big help.

At the same time we are recommending a reduction in Morocco's overall foreign assistance package down to $119 million from $144 million in the current year. It seems to me that this is the opposite of what we ought to be doing based upon what Morocco has been doing for us and for peace in the region. We should at least hold to last year's level. I would say further that given their track record over the last year, they deserve an increase if that would be possible.

Could you explain why you are suggesting this reduction?

Mr. **Hare**. I will make just one point and then turn it over to Carol.

As I recall, in fact Congress did increase the levels for this fiscal year for Morocco above the administration request.

Senator **Kasten**. That is correct. This has been something the Congress has done for the past several years because this same question has been asked. This has probably been one of the most productive years in terms of the work that Morocco has done. They do not know where the add-on came or what happened or how the bill was crafted in the House or the Senate or whatever. They just know they got $144 million last year, and the administration is now asking for only $119 million.

Mr. **Hare**. Yes; Mr. Senator, I agree first of all with the very important role that King Hassan has played in Arab councils. We also have a very long relationship with that country and a very strong relationship with that country.

I guess the only way that I would be able to try to answer your question is that you are dealing with a very limited pool of resources, and we have to make some difficult choices and decisions in apportioning the aid.

As you pointed out, the total amount for Morocco is around $119 million. It is a question of tradeoffs, but we still believe that with respect to Morocco that this is significant effort on our part to help them.

Senator KASTEN. Thank you, Mr. Chairman.

AID TO PAKISTAN

Senator LEAHY. Senator Mikulski.

Senator MIKULSKI. Thank you.

Mr. Hare, we have not had a chance to meet and have a discussion on this, but certainly your portfolio carries some of the most troubled places in the world, and we really look forward to working with you.

Senator Kasten asked many of my questions on the Middle East, and Howard Metzenbaum now wants me on the floor for a vote. Perhaps I could at least get one question in before I leave.

I would like to go immediately to the area of Pakistan. I think all of us want to see the new democracy in Pakistan succeed. Picking up on Senator Leahy's questions related to what Pakistan needs to make sure the fragile democracy succeeds and his outline of certain social concerns, in your testimony you talk about the need for $241 million to continue to modernize the military and $380 million in economic aid.

Do you feel this economic aid is sufficient? What do you think it will go for? Do you think that goes to the issues that Senator Leahy and I have, the concerns that we all have?

Mr. HARE. I will defer to Carol for a more detailed explanation of where that $380 million is going, but it is going into the vital areas of education and health, narcotics, antinarcotics efforts.

While the Prime Minister was here she signed several aid agreements.

Senator MIKULSKI. Mr. Hare, what would be the consequences to Pakistan if that aid was cut?

Mr. HARE. The total package?

Senator MIKULSKI. Either component. I know this is under consideration by some members of the committee.

Mr. HARE. I think it would be extraordinarily harmful. I would say that it would be rather ironic if the United States Government, who has stuck with Pakistan through thick and thin during 10 years of war in Afghanistan finally leading to the expulsion or withdrawal of the Soviet forces from Afghanistan and doubly ironic after the election of the new democratic government in Pakistan to all of a sudden appear to be punitive by cutting aid levels.

I think this would be absolutely the wrong way to go, and it would send the wrong signals not only to Pakistan and what we believe in with respect to democracy, but it would send the wrong signals in the region as well.

Senator MIKULSKI. Do you think it would actually jeopardize the democracy?

Mr. HARE. Absolutely. Of course, I mean, if you are talking about a cut of $1 million, it is going to have less of an effect than a more substantial cut, but it will have a definite effect on the prospects for democracy in Pakistan.

AID FOR AFGHAN REFUGEES

Senator **Mikulski**. Dr. Adelman, we talked a little bit about the $380 million in economic aid. Mr. Hare said what it would go for. Do you think we could talk a little bit about the aid for the Afghan refugees in Pakistan, because I do not think that is included in the $380 million. Is that correct? What are you proposing for Afghan refugees?

One of the things that was very clear in Prime Minister Bhutto's comments was that she estimates that at least 3.5 million refugees are in Pakistan as well as those on the other side of the border under terrible circumstances for which aid legally or in a gray way is getting over there.

Could you comment on that?

Ms. **Adelman**. There are two programs. AID has a cross-border program which this year was $68 million. That provides assistance to displaced Afghans inside Afghanistan.

We also have a program which is basically run through the State Department for the refugees inside Pakistan, the 3.5 million that you talked about, and that program is primarily administered through UNHCR and through other refugee groups.

Senator **Mikulski**. What do you foresee to be the aid to Pakistan for the Afghan refugees?

Ms. **Adelman**. We have one aid program that goes to Pakistan, and then the amount of money that is for those refugees in Pakistan in 1989 was $63 million, and in fiscal year 1990 the request is $80 million. That covers UNHCR programs, World Food programs and other voluntary agencies.

Senator **Mikulski**. The cross-border?

Ms. **Adelman**. That does not include the cross-border.

Senator **Mikulski**. So cross-border would be in addition to——

Ms. **Adelman**. Cross-border is an additional $97 million, those two together.

Senator **Mikulski**. Mr. Chairman, do we have time, or do we have to go to vote?

Senator **Leahy**. We still have another 12 minutes and 38 seconds in the vote.

Senator **Mikulski**. One of the goals I know of the Afghan refugee program is the——

Senator **Leahy**. We can come back——

Senator **Mikulski** [continuing]. Issue of resettlement. Most of the world's refugees are women and children. In fact, over 90 percent of the world's refugees are women and children. What particular refugee programs are focused in that direction, knowing that this is an Islamic culture and knowing that in Afghan it has been brought to my attention that there has really been exacerbation of the more fundamentalist Islamic traditions and, therefore, the women would have particular difficulty?

Ms. **Adelman**. We have a variety of programs. There are probably two that are most relevant to women are the health program and education. In the health program we are providing training and maternal child health which consists all the way from child care and preventive measures to help in taking care of children as well as medicines and health advice for mothers themselves.

In the education area we are training teachers to teach children. Obviously basic education will have a major effect. It is one indicator which has the highest correlation with women's prosperity.

So I think those two areas are the most key for women in Afghanistan.

MIDDLE EAST REGIONAL COOPERATION PROGRAM

Senator **Mikulski**. I would like to just bring to your attention another program in Israel. The gentleman who succeeded me in the House is Congressman Ben Cardin. He and I work very closely on the Middle East, and he wanted me to bring to your attention an AID program that really works in the area of protein development. He wanted you to be sure to be aware of it as you go through your activity. It is the Middle East Regional Cooperation Program.

Are you familiar with that?

Ms. **Adelman**. Yes.

Senator **Mikulski**. He just asked me to tell you about it in more detail.

My last question comes back to Mr. Hare, back to the Pakistanian question. With the $241 million in military assistance, what do you think are the benefits that are derived from that?

This is, I think, our third year of funding it.

Mr. **Hare**. I was going to point out, Senator, that this is part of a 6-year program; therefore, it has to be seen within that context and within that timeframe.

As I said before, we are focusing on what we consider and the Pakistanis consider to be their legitimate defense needs in what I would repeat is a rather dangerous neighborhood.

We furthermore do not believe that our programs are destabilizing in any way.

With respect to the South Asian region, given the other force deployments that one finds in the region, if you would like to have a few more details on the specifics I could ask Mr. Gnehm, who is from the Department of Defense and works in ISA who is very familiar with the details of that Pakistani program?

Senator **Mikulski**. As much as I would like to hear it, I am going to have to leave for my vote, but I would like to affirm Senator Leahy's request for a closed door session.

Senator **Leahy**. We are going to have to go to vote.

MILITARY THREAT TO PAKISTAN

Senator **DeConcini**. Mr. Chairman, I would like to ask just a couple of quick questions.

Mr. Hare, has the military threat to Pakistan been reduced now that the Soviets have literally left Afghanistan rather than it was 1 year ago?

Mr. **Hare**. I would point out, Senator, that it is always a little bit difficult to gauge a threat. I suppose at one level you would say that the threat has receded somewhat; but in the other sense you would have the regime in Kabul, and there are hundreds of Soviet missiles that have fallen on Pakistani soil.

Senator DeConcini. Second, I understand very clearly what you have said here about the political realities of the new government, the U.S. aid and the interpretation that aid sends to Pakistan. If the Congress and the administration signed into law the same amount of aid that Pakistan is receiving this year, next year, instead of approving the administration's request—and I understand the request is an increase both in military and economic support—how would that be viewed in the political picture you have painted of the situation in Pakistan?

Mr. Hare. If you set it at this year's levels——

Senator DeConcini. Which, I understand, is less than what you have requested.

Mr. Hare. Senator, you are putting me at a disadvantage. Clearly, we want to provide that full amount to Pakistan and believe that it is extremely important; I would say in many ways even more important now after the Soviet withdrawal and having the elections in Pakistan, which was quite a remarkable event. I quite frankly would not be at all happy to see it lowered or tampered with in any way.

Senator DeConcini. Mr. Hare, let us assume the sale of 60 F-15's is approved. Would that enhance the political stability of Prime Minister Bhutto?

Mr. Hare. The F-16's?

Senator DeConcini. F-16's?

Mr. Hare. F-16's, Senator, yes; that issue was discussed with the Prime Minister while she was here.

I would point out with respect to the F-16's that that is going to go through the normal congressional notification process.

Senator DeConcini. Assuming that is approved.

Mr. Hare. Assuming it is approved, the funding for that is actually not going to come out of the FMS account.

Senator DeConcini. I understand. My point is the political reality back in the country. Would that enhance her stature with the military?

Mr. Hare. I think it is going to be a very important part. I would not want to personalize it too much because I think it is a very legitimate defense requirement. Pakistan has an aging air fleet which needs to be replaced. By the time that these planes get delivered over 6 or 7 years, whatever it is, it is not going to alter the ratio of forces between Pakistan and India.

Senator DeConcini. Mr. Hare, what if, in the request for economic and military aid, the total amount was provided but the mix was different? That would mean more economic aid and less military assistance. What effect would that have?

Mr. Hare. I tried to indicate, Senator, that there has been a change of ratios, that we are now if you want to be precise I think at 61/39 percent.

Senator DeConcini. What if Congress altered that?

Mr. Hare. I would not advocate any alteration at this point, but I think that as we move forward into the next fiscal year that we will be discussing that with the Pakistanis, but I would not advocate it now.

ADDITIONAL COMMITTEE QUESTIONS

Senator **DeConcini**. Thank you. There may be some additional questions from various Senators which we will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

ISRAEL - PEACE PROCESS

SENATOR LEAHY: I read in the press that the Administration has been carrying on substantive discussions with the PLO in Tunis about the Israeli proposal for elections in the West Bank and Gaza.

Is any progress being made? Are Palestinians seriously discussing the possibility of elections in the occupied territories?

Before this subcommittee last March, Secretary Baker refused to rule out negotiations between Israel and the PLO some day. Can you please state Administration policy on the role of the PLO in a peace negotiation?

MR. HARE: We have discussed the Israeli proposal for elections in the West Bank and Gaza with the PLO and urged that they go along with the initiative. We believe the PLO is considering the proposal. The PLO has accepted the principle of elections, but has a number of specific concerns about aspects of the Israeli proposal.

When the PLO accepted long-standing U.S. conditions last December, we began a dialogue with the organization, which we have used to urge progress and to advance the peace process. The PLO has the ability to contribute to peace in the region. To some extent, its role will depend on the extent to which it takes a constructive stance.

PEACE PROCESS - ROLE OF THE SOVIET UNION

SENATOR LEAHY: In your statement, you refer to Soviet "new thinking." Are we seeing any signs of Soviet new thinking as regards relations with Israel and a constructive Soviet role in the Middle East peace process? For example, what have the Soviets said about the Israeli proposal for West Bank elections?

Your statement mentions an upcoming meeting with the Soviets on June 15 about the Middle East. What did you achieve in these discussions? Did you ask the Soviets to use their influence with the PLO and other Arab parties to respond positively to the concept of West Bank elections as a step toward a final resolution of the status of the territories?

MR. HARE: The Soviet position on the peace process is evolving slowly. We have seen some positive signs in recent months, including expanded Soviet contacts with Israel and increased Jewish emigration from the Soviet Union. The Soviets still need to show, however, that they are committed to taking actions designed to advance the peace process, not merely to enhance their own role in the region. Support for the Israeli elections proposal would be an indication of a positive Soviet stance. We have urged them to endorse the proposal. The Soviets have not rejected the Israeli initiative but have indicated only that it is worthy of study.

PEACE PROCESS - ROLE OF JORDAN

SENATOR LEAHY: Has King Hussein shown any interest in pursuing the Shamir elections initiative? Is he prepared to play any constructive role in getting a process going which could lead to a settlement between Israel and the Palestinians?

MR. HARE: Although King Hussein has publicly expressed reservations about Prime Minister Shamir's motives, at the same time he agrees that the elections idea, properly developed and as part of a broader process aimed at achieving Palestinian political rights, could be a useful step in the peace process. He is prepared to consider trying to develop this initiative, in consultation with other Arab states and Palestinians.

JORDAN - SECURITY ASSISTANCE

SENATOR LEAHY: What is the justification for the $60 million increase you are requesting for Jordan in ESF and FMS? What new threat confronts Jordan that warrants such a large increase?

MR. HARE: Although our aid request is an increase over the levels we provided in FY89, it is still appreciably lower than the level of aid needed to help Jordan through the difficult times it is experiencing. It is also far lower than the levels we provided up until FY88, when our aid took a dramatic downturn.

SENATOR LEAHY: If you get this increase, what will it go for?

MR. HARE: ESF assistance will help the Jordanians meet an extremely difficult foreign exchange situation which threatens to undermine the entire economy. It will complement Jordan's Paris Club debt rescheduling and austerity measures the Jordanians have undertaken to deal with their financial problems. Our FMS grant aid will provide some of the funds needed to sustain U.S.-origin equipment already in Jordan's inventory, as well as continue training in the U.S. for some Jordanian military personnel.

SENATOR LEAHY: When Jordan's principal problems seem to be a sagging economy and foreign debt, why should we be putting so much of our limited aid resources into military procurement instead of development?

MR. HARE: Jordan does have economic difficulties. But at the same time, Jordan has legitimate defense needs which we continue to support because they stem in part from the pursuit of interests we share with Jordan. Regional stability, the search for peace in the region and the fight against terrorism are all interests we hold in common. The moderation which King Hussein has consistently voiced in Arab circles has been possible only because of Jordan's ability to defend its independent stance. Jordan has faced intimidation and terrorism because of this role. We support its effort to stand up to such pressure.

SENATOR LEAHY: The day the Senate passed the supplemental, I was contacted by the Administration to see if we would put on another $22 million in ESF for Jordan. What was that all about? What is the "dire" emergency confronting Jordan that you wanted a last second amendment to the Supplemental?

MR. HARE: Earmarking of limited resources in the budget process in FY89 resulted in a cut of our $48 million request for FMS grant for Jordan to $10 million. This financial blow to Jordan's defense budget came at a time when Jordan's entire economy was in grave trouble. Our subsequent contribution of $10 million, although obviously welcome, represented less than 10% of the funds needed to sustain U.S.-origin equipment in Jordan's inventory. Our effort to increase our FMS contribution was intended to help offset a serious decline in Jordan's defensive capability, which our reduced contribution exacerbated.

EARMARKS

SENATOR LEAHY: Secretary Baker told this subcommittee that one of his top priorities was the elimination or reduction of congressional earmarks. NEA programs are among the most heavily earmarked. In FMS or ESF, we earmark Israel, Egypt, Morocco, Tunisia, Jordan and Pakistan. What would happen if we did what Secretary Baker wants and stopped earmarking? How would Congress know, for example, that Israel and Egypt would receive the amounts contained in the Congressional Presentation at the beginning of the year?

MR. HARE: To guarantee you that any single country would receive a set amount, regardless of the cuts to the overall program, would mean that we were imposing earmarks on ourselves. Whether we do it or you do it, it adds up to the same result -- greatly reduced flexibility to respond where we need to and when we need to.

Rather than try to guarantee an outcome, let me instead offer a process. If you give us a more flexible program, we will assure that this flexibility is exercised in close consultation with Congress and that the balance we achieve in the overall program is one we can all live with. Obviously, we won't match Congressional Presentation Document (CPD) levels in all cases. But we will work with you to get the most sensible distribution of available resources.

EGYPT M-1 TANK PROGRAM

SENATOR LEAHY: The press reported Egypt intended to cancel our $2 billion program to set up an M1 tank production plant outside Cairo. This came right after the dismissal of Field Marshal Abu Ghazala as Defense Minister.

Now we hear that the M1 program will continue. What is Egypt's position on the M1 tank program? Are they going to cancel it?

MR. HARE: The Government of Egypt has reiterated its intention to proceed with the M1A1 coproduction program as designed.

AFGHANISTAN - INTERNAL SITUATION

SENATOR LEAHY: What is the current political and military situation in Afghanistan? What is the assessment of the strength of the Najibullah regime? Is the resistance going to have to wage a prolonged war against Kabul even after the Soviets are gone?

MR. HARE: The Kabul regime still controls the major cities, while the resistance holds sway over the countryside. The resistance strategy appears to be a classic guerrilla one of gradual isolation of the cities and regime garrisons.

Despite some recent setbacks (e.g., failure to take Jalalabad), overall the resistance continues to make incremental military progress against the regime.

The Afghan people reject Najibullah and the PDPA as a regime imposed by Afghanistan's powerful northern neighbor and maintained in power by massive supplies of Soviet arms. The PDPA regime will eventually meet the same fate as many other Afghans placed in power by outsiders over the centuries.

Even though the Soviets have removed their occupation forces, the legacy of the Soviet aggression remains behind. The Soviet-installed Kabul regime holds onto power by virtue of continued massive assistance from Moscow, though this cannot save the regime ultimately.

SENATOR LEAHY: What are the prospects for a negotiated solution here? Is Mrs. Bhutto still trying to promote negotiations between the Kabul government minus Najibullah and the Resistance, or did you persuade her to keep up the war to destroy the Kabul regime? What is the attitude of the Administration about that?

MR. HARE: It has been our consistent position that we favor a peaceful solution in Afghanistan. The key to such a solution is the transfer of power from the illegitimate Kabul regime to a broadly based Afghan government. The President and PM Bhutto reaffirmed U.S. and Pakistani commitment to a political solution on this basis in June. We and Islamabad are in total agreement on this point.

AFGHANISTAN - HUMANITARIAN AID

SENATOR LEAHY: The Administration wants $16 million additional for humanitarian aid to help Afghan refugees return home. From your statement, it looks like aid requests to help Afghans in one way or another total over $95 million. The war is still going on and seems to show no signs of ending soon. Wouldn't it make more sense to channel more of that money to helping the refugees in the camps rather than trying to work inside Afghanistan while the war is continuing?

How much money from all sources in the U.S. government is going to aid Afghan refugees? How much from international agencies and other countries?

MR. HARE: Preparations for repatriation must continue. When the repatriation starts, it is likely to be a massive and spontaneous movement of people who will all require resettlement assistance at once. The U.S. supports a central role for the UN in these efforts. The UN Coordinator, Prince Sadruddin, has received pledges totalling almost $900 million to his Trust Fund for Afghan repatriation and resettlement; these pledges include 400 million rubles worth of in-kind assistance from the Soviet Union (valued at $600 million, using the official exchange rate).

The U.S. bilateral cross-border assistance program is the only ongoing program that delivers significant amounts of aid inside Afghanistan. That aid helps prepare liberated areas of Afghanistan for refugee return and helps Afghans live in Afghanistan instead of becoming refugees. For these reasons, it is important that we not reduce our cross-border assistance.

At the same time, assistance to the 3.2 million refugees in Pakistan must continue. Since 1980, the U.S. has provided over $600 million for Afghan refugee relief programs, much of it through the UNHCR, the World Food Program (WFP) and PVOs. Over $355 million has been in the form of PL-480 food commodities. We have also donated $16.7 million worth of wheat for refugee programs. Since 1980, the U.S. has donated over $11 million to the ICRC, approximately $8 million to the League of Red Cross/Red Crescent Societies and $16.1 million to American PVOs. Our contribution to the UN mine awareness and demining program is valued at $2 million.

In FY89 $68 million is available for AID's cross-border humanitarian assistance program and $55 million for multilateral refugee assistance. In addition, $5 million for ICRC's emergency medical programs and $2.5 million for the UN Trust Fund were pledged from ERMA funds. Approximately $10 million is available for the DOD humanitarian relief program (the "McCollum Program") to transport donated humanitarian goods to Pakistan and wounded Afghans to other countries for medical treatment.

Our figures on the world-wide contribution to Afghan refugee relief efforts are less precise. Over fifty PVOs from the U.S. and other nations are engaged in relief work for the Afghan refugees. For 1989, the UNHCR has budgeted over $69 million for Afghan relief efforts, and the ICRC plans to spend approximately $55 million.

BANGLADESH

SENATOR LEAHY: You have proposed a $28 million cut in development and food aid to Bangladesh. At the same time you are proposing increases in military aid to Pakistan and Thailand. How can you justify cutting humanitarian aid to a country as impoverished as Bangladesh at the same time the Administration asks to double military assistance to Thailand, a country that is practically an aid "graduate?" Is this just a matter of budget priorities, or are you suggesting that Bangladesh doesn't need so much aid?

MR. HARE: Our FY89 request for Bangladesh was $135.6 million. We provided additional emergency assistance during the fiscal year when Bangladesh was hit by severe flooding, which at one point inundated 75 percent of the country. For FY90, we are asking for a total of $133.9 million, very close to our initial request last year. For FY90, Bangladesh is the sixth largest recipient of US economic assistance in the world. We will also do our best to respond to provide humanitarian assistance if an emergency arises.

Let me say a few words about our $45 million request for military assistance for Thailand, which is one of our highest priorities for FY90. The sole U.S. treaty ally in Southeast Asia, Thailand's security will remain threatened by serious instability in neighboring Cambodia even if the Vietnamese end their occupation of that country in the near term. Thailand continues to bear the burden of a massive refugee problem at the behest of the United States and others concerned about this humanitarian problem. Thailand also remains key to our efforts to curtail the production and flow of narcotics from the Golden Triangle. While Thailand's economic progress is laudable, it still needs U.S. help in meeting these extraordinary demands. Nonetheless, our military assistance dropped from $45.5 million in FY 88 to only $24.2 million in FY89. Our request for FY90 thus seeks to restore traditional levels of support for this important ally in a troubled region.

LEBANON

SENATOR LEAHY: You have asked for $14.7 million for economic and food aid for Lebanon to be disbursed by private voluntary organizations like Save the Children. That is a cut of $2 million from last year. I gather this is primarily a humanitarian program to get food and medicine into Lebanon. How effective is this aid in alleviating some of the suffering in Lebanon, and why are we cutting back?

MR. HARE: The targeted feeding program made possible through our PL-480 commodity aid, and distributed by Save the Children in Lebanon, is part of our ongoing effort to meet the humanitarian needs of Lebanese people suffering as a result of the civil unrest. Leaders and representatives of different Lebanese factions, as well as experienced UN observers in Lebanon, have commented on the evenhandedness and overall 9effectiveness of the U.S. food program.

Our FY89 food and economic support funds (ESF) aid total included more than $2 million in reprogrammed development assistance funds, which boosted the overall aid level to Lebanon this year. For FY90 our $2 million ESF request is up from the FY89 level of $0.3 million. The humanitarian aid program which helps feed 135,000 Lebanese families--about a quarter of the population--will continue to have a high priority in our assistance package.

LEBANON - AMERICAN UNIVERSITY

SENATOR LEAHY: In your statement, you argue for continued US funding support to the American University of Beirut.

In the present security situation in Beirut, does it make sense to put more money into AUB when it cannot hold classes, when it is shelled, when its facilities are falling apart, when students do not dare come to the campus?

Until the security situation radically improves so that the University can actually function as an institution of learning, wouldn't it be better to use our limited resources to support other qualified institutions under the ASHA Program?

MR. HARE: ASHA funding for the American University of Beirut, AUB hospital, and Beirut University College helps alleviate some of the massive suffering in Lebanon and maintains American institutions and an American presence in Beirut which can be easily expanded at the end of hostilities. Allowing these institutions to atrophy or disappear during time of conflict would make it harder to re-establish an American foothold in post-war Beirut and would throw away the large financial investment that the United States has made in these institutions for many years, including during the preceding fourteen years of civil war.

ASHA funding for AUB hospital is especially important to alleviating the suffering in West Beirut. Even with current levels of ASHA funding, AUB hospital still has a great shortfall and requires the assistance of private organizations. It is essential to the functioning of AUB hospital, AUB, and BUC that ASHA funding continues.

HANI ABU LEIL

SENATOR LEAHY: Last November I was contacted by a constituent about a Palestinian in the West Bank who was hit in the eye with a "rubber" bullet and needed surgery. Doctors at the Middlebury Vermont hospital have offered to do the surgery free of charge.

According to the Israeli Ambassador, the man, Mr. Hani Abu Leil, was granted an exit permit in January. My constituents, who until recently were in contact with him, say that he has never received such a permit. According to a cable I received last week he is now in jail, although there was no explanation why. This has gone on for over six months. Two months ago I asked our Consulate to obtain a copy of the exit permit. To date I have received nothing. Can you find out for me what has happened so I can tell my constituents?

MR. HARE: We discussed Mr. Abu Leil's case in some detail with a member of your staff. We have not received further information about Mr. Abu Leil's arrest since the consulate's last report and our discussion. We have asked Ambassador Brown to follow up the letter you sent to him on July 10 regarding this case.

OMAN - STINGERS

SENATOR LEAHY: Does the Administration intend to ask for approval to sell Stinger missiles to Oman?

MR. HARE: The Administration has not responded to Oman's interest in purchasing a limited number of Stingers. Congress has banned the sale of Stingers to states in the Gulf region.

The Administration remains committed to assisting friendly governments in the area who face genuine security threats. We are discussing with the Foreign Affairs Committee of the House of Representatives measures the U.S. could take to be responsive to Oman's genuine security concerns.

EGYPT-LOCAL CURRENCY

SENATOR LEAHY: Dr. Adelman, why does A.I.D. refuse to support the Inspector General in seeking the right to audit programs with Egypt which generate local currency? Isn't A.I.D. concerned about misuse of these local currencies?

How much local currency is generated each year from U.S. A.I.D. programs in Egypt? What rights does the U.S. retain over this local currency? Isn't it true that we must approve how it is used by the Egyptians, and that by agreement it must go to support development?

If you refuse to insist that the IG have the right to audit local currency accounts, how do you know it does not go to pay the salaries of the bloated government bureaucracy? How do you know it is not shifted into the Defense Ministry to pay for weapons?

DR. ADELMAN: In Egypt, approximately 200 million Egyptian pounds are generated from Commodity Import Programs each year. At no time have we or the Egyptian Government refused to support the right of the Inspector General to audit programs associated with the host country owned currency and the Inspector General has exercised these rights appropriate to the end uses of these funds.

Each year a general agreement is worked out with the Government of Egypt on the use of these funds and there are occasional ad-hoc agreements during the year. The bulk of the local currency is used for budget support and some is "projectized". In both cases, however, the A.I.D. Mission in Cairo follows established Agency policy on programming, implementation and monitoring. The A.I.D. Mission traces the distribution of these funds in the budgets of approved government agencies and determines that they are used for mutually-agreed upon development purposes, again according to Agency guidance. By law, these funds cannot be used for military purposes and the Government of Egypt fully recognizes and complies with this prohibition.

The amount of local currency generated under PL 480 Title I in Egypt is approximately 120 million Egyptian Pounds each year. During negotiations with the Government of Egypt over a second Title I agreement for FY 1989 in January of this year, the Government of Egypt took issue with Washington's last minute insertion in the negotiations of a new audit provision requested by the Development Coordinating Committee (DCC). The use of the word "audit" was thought to be too politically sensitive since the agreement had to be presented to the Peoples' Assembly. The DCC then deleted the term from the agreement. However, the final agreement itself describes the right of United States Government to "review" the activities which, in all but name, amounts to an audit right.

EGYPT-ESF CASH TRANSFER

SENATOR LEAHY: Dr. Adelman, what is the state of play on the $230 million we have been withholding from Egypt because it has not yet concluded a new Standby Agreement with the IMF? You know Senator Kasten and I wrote Secretary Baker expressing our concern about the impact on Egypt of withholding this money. What is being done right now to release this money?

DR. ADELMAN: We have been working closely with the Government of Egypt on establishing a sound, credible basis for the release of cash transfer resources, which Congress has linked to "significant additional" economic reforms. The Egyptian government laid out some promising new reform measures in April. The President signaled that he would support implementation of these with the release of cash transfer resources. Release of the cash resources is not specifically linked to a new stand-by arrangement with the IMF. We are currently working out a basis for the release of the first tranche of $115 million based on support of energy price increases, reductions in food subsidies, and other important reforms. As Egypt puts into place additional liberalization measures announced in April, we would expect to recommend release of the second $115 million cash tranche.

EGYPT - BROOKE AMENDMENT

SENATOR LEAHY: Dr. Adelman, my understanding is that Egypt is very likely to fall more than one year in arrears on its debt repayments to the U.S. by this November, if its foreign debt is not rescheduled. If that happens, the Brooke amendment will require us to cut off all aid to Egypt. The consequences of such a step could be far-reaching and possibly very damaging to U.S. relations with Egypt. What is the present situation with respect to Egypt's debt repayments, and what are the prospects for a debt rescheduling before November?

DR. ADELMAN: Egypt has already resumed repayments on its debts to A.I.D. ($140 million per year) and PL-480 ($100 million per year). Egypt must also resume payments on its FMS military debts to the U.S. in November at an annual rate of $700 million per year to avoid Brooke Amendment sanctions, unless a rescheduling agreement is in place.

We recognize that this is a heavy burden on Egypt, a country which suffers from chronic balance of payments problems and an estimated financing gap of more than $3 billion for the current year. For this reason, for the past two years, we have been encouraging the Egyptian government to design and implement a comprehensive economic reform program that could act as the basis for an IMF stand-by arrangement and another Paris Club debt rescheduling. Until last month, very little progress had been made toward this goal. Important progress was achieved in the most recent round of negotiations with the IMF. However, further negotiations with the IMF, World Bank and bilateral creditors will be needed before an IMF stand-by arrangement and Paris Club rescheduling can be finalized. Hence, Egypt may have to resume servicing its U.S. military debts in November until a formal rescheduling can be put into place.

SENATOR LEAHY: What happens if there is no debt rescheduling? Does Egypt have any source of hard currency that would enable it to avoid falling one year in arrears? Are you working on some solution which will prevent that from happening?

DR. ADELMAN: While Egypt faces great economic difficulties, the country's foreign exchange inflows from oil exports, Suez Canal dues, tourism, worker's remittances and other exports continue to exceed $10 billion per year. Egypt is still in a position to meet its highest priority debt servicing commitments; however, this would be at the cost of diverting scarce foreign exchange from vital imports needed to maintain the level of economic activity. To revive its stagnant economy and to stimulate growth, we have encouraged the Egyptians to work out the details of a credible reform program with the IMF which could pave the way to a Paris Club debt rescheduling.

SENATOR LEAHY: When senior Egyptian financial officials were in Washington recently, they suggested that one solution might be to allow Egypt to use escrowed funds - or at least the interest - from excess repayments it made before the last debt rescheduling. Have you looked into that possibility?

DR. ADELMAN: Yes. The Defense Department recently permitted Egypt to reapply $212 million in escrowed prepayments from the 1987 rescheduling to service its FMS debt arrearages. This enabled Egypt to postpone from July until November the date by which its FMS payments must be resumed to avoid Brooke Amendment sanctions.

ECONOMIC POLICY REFORM

SENATOR LEAHY: Dr. Adelman, according to your prepared statement "A.I.D. programs during the last few years have focused increasingly on assistance to structural adjustment, and this emphasis is expected to continue."

More and more people agree that state-controlled economies need reform. Large government bureaucracies need to be streamlined and many state-owned businesses need to be turned over to private enterprise. But as you say, "structural adjustment can cause hardship over the short-term for some parts of the population." Less government spending for social services, higher prices for consumer goods caused by devaluing currency, rising unemployment from dismantling parastatal companies--these are all examples of this hardship.

What do you mean by the "short-term?" How do you know how long this hardship will last? What is an example of a country that has undertaken structural economic reforms and the hardship to the poor has come and gone--where the majority of people who suffered hardship are not better than they were before the reforms?

Isn't it the poorest people who end up suffering the most from these reforms? How many Egyptians would be worse off in the "short-term" if that government adopted the kinds of structural reforms that are needed? You mention the "Safety Net" programs in Egypt, Morocco and Tunisia, where governments have used A.I.D. P.L. 480 commodities to make food available to those in need. How much of the hardship can realistically be offset this way?

DR. ADELMAN: The period covered by the term "short-term" is different for each country undergoing structural adjustment. It depends on the pace at which structure adjustment is pursued. Short-term hardships are experienced by the majority of the population not just the poor, until the economy begins to grow under the new economic regime, providing productive employment for the working population.

Morocco has been implementing a structural adjustment program since 1983. Experience there shows that some measures, such as, liberalizing the import regime and lowering duties has had a salutary effect on the cost of living, benefiting a large part of the population including the poor. At the same time, reduction of consumer subsidies has increased the cost of living for the poor but the effects have been temporary. In spite of a concentrated restructuring program, the inflation rate stayed in the single digit range and was as low as 2.7% annual in 1987. In Morocco we can say that the "short-term" period of hardship lasted four years. In the case of Egypt, we cannot predict how long "short-term" will be until a comprehensive structural adjustment is planned and reforms are scheduled over time.

The poorest are potentially the greatest sufferers in the "short-term" because they have the weakest base. Their burden can be eased by "safety net" programs including subsidies on essential commodities. How much of the hardship can be relieved this way will depend on the amount of resources available and success in targeting those most at need. The "safety net" programs A.I.D. assists in Egypt, Morocco, and Tunisia are providing needed commodity assistance and work for a limited number of mostly rural based unemployed.

In the case of Egypt, failure to adopt a comprehensive adjustment program is likely to lead to continued declines in living standards for the poor, as government resources are simply unavailable to maintain previous levels of subsidies. Hence, the choice is between chaotic adjustment to reduced levels of resources or comprehensive structural adjustment. Only the latter choice offers the promise of growth and higher living standards, albeit over the medium-term.

A.I.D. RESOURCES TO BE USED TO RAISE LITERACY LEVELS IN PAKISTAN

SENATOR LEAHY: You mention in your prepared statement that 76 percent of the workforce and 81 percent of the female population is illiterate. What portion of our huge A.I.D. program in Pakistan will be used to increase literacy, particularly among women, and what results can we expect?

DR. ADELMAN: Pakistan's high level of illiteracy stems, in part, from decades of neglect of the education sector. Until recently, the Pakistan government has allocated less than 2 percent of GNP to primary education. The education of girls and women living in the rural areas, in particular, has been ruefully inadequate. A combination of socio-economic factors, compounded by religious and cultural constraints have, over the years, seriously limited the pool of available and qualified female teachers. As a consequence, only one in six girls has completed five years of primary education. Cognizant of the debilitating effects of illiteracy on sustainable economic growth, the Government of Pakistan (GOP) has embarked on an ambitious education campaign. The 68 percent increase in expenditure for education in the 1989/90 budget attests to the GOP's determination to raise the literacy level of its people. We are supporting the Government with the largest A.I.D. primary education project in the world which was signed during Prime Minister Bhutto's June visit to the U.S. Under this project $280 million over a ten year period is targeted to improve primary education and to expand overall access, equity and quality of education, particularly in rural areas, over the next ten years. While our funds will be used to support educational policy reforms nation-wide, we are specifically targeting the primary education population in Pakistan's two most remote provinces: Baluchistan and North West Frontier. We are projecting a doubling of total primary school enrollment (grades 1-5), and an increase from 1.5 million students to about 3 million students by 1999 in these two provinces. Female enrollment is expected to triple and to increase by 198 percent - about 1 million girls - and about 2 million boys will be enrolled in primary education programs. Special measures to recruit, train, and retain female teachers will also be implemented. We believe that the combined resources of the GOP and USG, and most importantly the political commitment of the Pakistan government to primary education will significantly raise the literacy level in Pakistan within one generation.

IMPROVEMENTS IN PAKISTAN'S SOCIAL INDICATION PROCESS AT A STEADY PACE

SENATOR LEAHY: You mention that during the 1980s, economic growth in Pakistan was over 6 percent per year, but that "most indicators of social welfare are extremely low even compared to other countries in the region." (Infant mortality during the first year averages 100 per 1000 births, and life expectancy is only 54 years.)

A.I.D.'s whole development strategy seems to be to promote economic growth. Here we have an example of a country which has experienced significant, steady growth, yet it doesn't seem to have helped the neediest people. How do you explain that?

DR. ADELMAN: A.I.D. is interested in growth, but only as a tool, not as an end in itself. A.I.D.'s strategy is to promote economic development, which involves decreasing the percentage of persons living in poverty, increasing caloric consumption, and improving health care and education. We have found that growth-oriented strategies such as promoting the private sector and increasing fiscal responsibility are the best means for decreasing poverty.

Through growth, Pakistan has made progress. The percentage of persons living in poverty has decreased from 43% in 1975 to 29% in 1979 (the most recent estimate) in rural areas and from 42% to 32% for urban areas. The infant mortality rate has decreased over 16% since 1975. Life expectancy at birth increased 11%. Primary and secondary school enrollments increased 15% and 60% respectively. The percentage of the population having access to safe water doubled.

This does not mean we are satisfied with the level of development in Pakistan. I believe the country is making progress, but I would like to see the country proceed at a faster pace.

The slow performance in the social sectors is a result of the low priority accorded them by the GOP in the past. For example, funding for primary education has been less than 2% of GDP for most of the past decade. The population program in Pakistan has also suffered from lack of political commitment.

There are indications that the new democratic government in Pakistan has given the highest priority to social sector development. For example, budgetary allocations for education will be increased in Baluchistan and the Northwest Frontier Province under a new A.I.D.-funded Primary Education Development Program. Recent appointments of highly educated and energetic individuals at the head of the health, population and education programs are other examples of increased political will in the social sectors. In addition the GOP is expanding essential services such as education, health, and clean water.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

INDIA'S NUCLEAR PROGRAM

SENATOR DECONCINI: As stated in your testimony, the barrier against India's acquisition of nuclear weapons is a political and not a technical one. The $25 million development assistance program for FY90 will focus on "science and technology cooperation."

How will the U.S. development program affect India's nuclear capability and the United States' ability to prevent proliferation on the sub-continent?

MR. HARE: We are prohibited by law from assisting India in its nuclear development program. Current U.S. assistance to India is in areas such as infectious disease, vaccine research, malnutrition, and dryland agriculture.

SENATOR DECONCINI: By providing funds through the development assistance program, is the U.S. possibly aiding India's nuclear program indirectly by enabling India to divert money originally appropriated for these areas of "science and technology cooperation" to its nuclear program?

MR. HARE: As I mentioned, our assistance to India is confined to cooperation outside the nuclear realm. The Indian government has repeatedly stated its intention to continue its indigenous nuclear research program. It is very unlikely that the availability of the relatively small amount of funds equivalent to U.S. assistance would affect GOI funding of nuclear research. Rather, reducing U.S. assistance would affect cooperative programs which promote our countries' mutual interests and directly benefit the people of India.

AID TO LEBANON

SENATOR DECONCINI: As we are all aware, the situation in Lebanon is volatile with rival factions led by General Aoun and Dr. Salim al-Huss constituting the center of a bloody and unrelentless struggle for power. What role, if any, will the nearly $15 million in U.S. aid for FY90 play in the battle for control of Lebanon?

MR. HARE: U.S. aid to Lebanon should play no role in the Lebanese power struggle. AID targets assistance to those most in need -- without regard to location or religion. Aid is distributed to private voluntary organizations and non-governmental organizations, not directly to any Lebanese government agency or militia organization. Our aid program is truly a humanitarian effort without political implications.

A.I.D. PROGRAM IMPLEMENTATION

SENATOR DECONCINI: What effect will the removal of the A.I.D. Representative in Lebanon have on the program's ability to operate effectively? How are security risks to A.I.D. personnel affecting A.I.D. operations in general?

MR. HARE: A.I.D. will rely even more than in the past on Private Voluntary Agencies to implement and report on projects in Lebanon. Program management will be exercised by the A.I.D. Lebanon Desk Washington and there will continue to be a small local staff in Beirut; there will, however, be less day-to-day supervision of ongoing programs, less ability to assess the needs of the Lebanese people, less scope to monitor relief and reconstruction programs, and a lessened role for A.I.D. as a catalyst for in-country coordination.

It was the security risk which dictated the need to draw down U.S. personnel in Lebanon, including the A.I.D. Representative. Security factors make it impossible for the A.I.D. local staff to visit project sites at all times. Moreover, periodic closing of the green line limits access to newspapers from west Beirut, which contain accounts of A.I.D.-sponsored activities, general conditions, and needs throughout the country. Sporadic telephone service to Lebanon and between east and west Beirut makes it difficult to monitor the welfare of the local staff.

AFGHANISTAN

SENATOR DECONCINI: In what area does A.I.D. assistance for Afghanistan and UN overlap?

DR. ADELMAN: A.I.D. provides assistance in health, education, and agriculture, as well as food and general commodity support to the population inside Afghanistan. The UN through the UN High Commission for Refugees (UNHCR) provides similar types of assistance to the Afghan refugees living in Pakistan. For the first time, the UN is in the process of launching a food program (approximately 53,000 metric tons of wheat) aimed at beneficiaries inside Afghanistan. This food program is being administered by the World Food Programme (WFP) and is intended to supplement the 120,000 metric tons of P.L. 480 Title II wheat which A.I.D. is providing in FY 1989.

SENATOR DECONCINI: Given that A.I.D. gave humanitarian aid to resistance-controlled regions of Afghanistan during the Soviet occupation, how receptive has the Najibullah government been to A.I.D. assistance, especially in the area of education?

DR. ADELMAN: We don't know the regime's reaction to our cross-border aid efforts.

SENATOR DECONCINI: What are the current numbers of Afghanistan refugees in Pakistani refugee camps? How effective has U.S. aid been to the refugees? Do you anticipate greater need for refugee assistance within the coming fiscal year?

DR. ADELMAN: There are an estimated 3.2 to 3.7 million Afghan refugees in Pakistani refugee camps. The USG along with other donor assistance to these refugees is provided through UN organizations such as the United Nations High Commission for Refugees (UNHCR) and the World Food Programme (WFP). The provision and monitoring of USG assistance is administered by the State Department's Bureau for Refugee Programs (State/RP). State/RP has informed A.I.D. that USG assistance has been effective, particularly since Pakistan is host to the largest refugee population by far. Over the last nine years, there has been no starvation, serious malnutrition, nor water shortages. State/RP also anticipates that modest increases in assistance will be needed, partly due to the on-going care and maintenance of the refugees in place, increased in number by 70,000 new arrivals who fled to Pakistan between November 1988 and May 1989 to escape fighting in Jalalabad, and to prepare for the eventual repatriation of refugees to their homes.

SENATOR DECONCINI: Has the A.I.D. resettlement of refugees met any opposition from, or experienced any difficulties in dealing with the Najibullah government?

DR. ADELMAN: Thus far, A.I.D., in coordination with UN officials in Pakistan, has been involved in resettlement planning for the return of the Afghan refugees. A.I.D. resettlement plans focus on the rehabilitation of the agricultural and health systems, and the repair of roads and bridges. A small portion of A.I.D. funds is being used for mine awareness training. To date, there has been no significant repatriation of Afghan refugees leading to their resettlement. UNHCR has consulted regularly with the regime on resettlement plans. Regime officials have posed no objections.

SENATOR DECONCINI: Your written testimony states that A.I.D. will look to non-governmental organizations to foster democratic and pluralistic institutions. Please explain this plan of action, especially in light of Assistant Secretary Kelly's prediction that the Kabul regime's departure is inevitable.

DR. ADELMAN: The Afghans are at an important juncture in their political history and certainly can benefit from the development of institutions that foster cohesion and democratic principles.

A.I.D. has had discussions with the Asia Foundation and the National Endowment for Democracy concerning the possible development of institutions such as a women's social service center, a human rights commission or an election commission, all under the Afghan Interim Government (AIG) or its successor. A.I.D. assistance can play a useful role in each of these areas in a low profile manner.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

U.S. INITIATIVE AND PLO RESPONSE

SENATOR KASTEN: Secretary Baker has expressed support for Israel's peace initiative.

Has the PLO's response to the election proposal been satisfactory? Will the U.S. end its dialogue with the PLO if the PLO continues to reject the U.S. supported initiative?

MR. HARE: The PLO has not accepted Israel's peace initiative. The PLO has, however, expressed support for elections in the context of a comprehensive peace leading to Palestinian self-determination. We believe the PLO is interested in the Israeli proposal but has serious reservations about specific aspects of it, including election modalities, the PLO role in the process, the linkage between interim and final status negotiations, and more clarity on the final status of the West Bank and Gaza. We are seeking a positive Palestinian response to the Israeli proposal and are using our dialogue with the PLO in an effort to elicit such a response. The U.S. plans to continue the dialogue as long as the PLO remains committed to the positions announced by Mr. Arafat last December.

AN INDEPENDENT PALESTINE

SENATOR KASTEN: In a campaign speech to the B'nai Brith convention last September, Presidential Candidate George Bush stated that, "I have made it very clear that I am opposed to an independent Palestinian state for a simple reason. Such a state would be a threat to the security of Israel and of Jordan...and it would be contrary to American interests. Candidate Bush added that, "Anyone who has trouble making up his mind on this issue, or who proposes to leave it open, just doesn't understand the dangers to Israel and to the United States; just doesn't understand the very real threats that continue to exist." But recent Administration statements have been less equivocal, noting that, "...the U.S. does not support the creation of an independent Palestinian state."

What is the Administration's position regarding an independent Palestinian state? Where, if at all, does the Administration's current position deviate from President Bush's categorical remarks during his campaign? What, if anything, is the difference between not supporting and opposing a Palestinian state?

MR. HARE: The United States does not support the creation of an independent Palestinian state. The President's position on this issue remains unchanged.

In the end, the final status of the West Bank and Gaza must be decided in direct negotiations among the parties involved in the conflict. Each party is free to bring whatever positions it wishes to the negotiating table, consistent with the basis for negotiations. The U.S. would expect to support whatever outcome is freely decided among the parties in these negotiations.

MORE ON AN INDEPENDENT PALESTINE

SENATOR KASTEN: In recent testimony before Congressional committees, Secretary of State Baker addressed the Palestinian state issue by stating that, "...an independent Palestinian state will not be a source of stability or contribute to a just and enduring peace." This statement falls short of remarks by President Bush and of the GOP platform, which opposed a Palestinian state, calling it, "...inimical to the security interests of Israel, Jordan, and the United States."

What is the Administration's position vis-a-vis the creation of an independent Palestinian state? Why has your testimony refrained from articulating unequivocal opposition to the creation of an independent Palestinian state?

MR. HARE: Our position on this issue is very clear: the United States does not support the creation of an independent Palestinian state. The President's position on this issue remains unchanged.

In the end, the final status of the West Bank and Gaza must be decided in direct negotiations among the parties to the conflict. The United States would expect to support whatever outcome is freely negotiated among the parties to the conflict.

PAKISTAN

SENATOR KASTEN: In the past, we have had some difficulty with the Pakistan program because of Congressional concern over that country's nuclear non-proliferation policies.

Now that we have a new government in Pakistan, can you indicate whether there has been any change in the government's policies with respect to that particular issue?

If so, what are the changes?

MR. HARE: Prime Minister Bhutto has declared, most recently during her June visit to Washington, that Pakistan does not possess and will not acquire a nuclear weapon. She has stated that Pakistan's newly elected democratic government will ensure that Pakistan's nuclear program remains strictly for peaceful purposes. We welcome the Prime Minister's unequivocal statements on this subject. Pakistan's nuclear policy is an an issue of major concern and one we will continue to monitor closely.

TERRORISM

SENATOR KASTEN: Are you satisfied that Arafat is doing all he can to end terrorist attacks, condemn those involved, and bring to justice those who have committed acts of terrorism?

How does Arafat's refusal to restrain those elements of the PLO from attacking Israel correspond with this position? Why is the PLO financing the legal defense of alleged terrorism Muhammad Rashid, who is wanted by the United States?

Mr. HARE: We initiated a substantive dialogue with the PLO only after Arafat, speaking on behalf of the PLO, met longstanding US conditions, including the renunciation of terrorism. The U.S. insisted that Arafat renounce, not simply condemn or denounce, terrorism, in view of the PLO's past activities. This renunciation does not excuse these past PLO activities, nor does opening the dialogue wipe the slate clean. Still, we have seen evidence that Arafat has made good faith efforts to rein in those under his direct control. We continue to monitor PLO activities closely and we will continue to hold the PLO to its commitment to renounce terrorism.

Our objective is to promote a viable peace process whose goals include achieving security and recognition for Israel and all states in the region. The US/PLO dialogue is not an end in itself, but rather a means to fashion a workable peace process. Thus, we are using the dialogue to urge the PLO to give practical application to the commitments Arafat undertook last December. Since May, we have been urging the PLO to take a position which allows progress toward elections and negotiations.

The PLO maintains a distinction between what they term terrorism and legitimate military targets, i.e. the Israeli military. We have stressed to the PLO that we do not condone cross-border raids even if directed against Israeli military targets. Such actions do not foster an atmosphere conducive to a positive Palestinian-Israeli dialogue.

Arafat, when he visited Greece last January, publicly stated that the PLO had renounced terrorism in all its forms, whether it be by individual, group, or state. According to press reports, Arafat said the PLO "would not interfere in the internal affairs of Greece if the government decided to extradite Muhammad Rashid to the United States."

NON-PLO PALESTINIAN LEADERSHIP

SENATOR KASTEN: What is the U.S. doing to encourage moderate non-PLO Palestinian leadership to emerge?

Mr. HARE: Our objective in our dialogue with Palestinians is to promote a viable peace process whose goals include achieving security and recognition for Israel and all states in the region. The US/PLO dialogue is not an end in itself, but rather a means to fashion a workable peace process. Thus, we are using the dialogue to urge the PLO to give practical application to the commitments Arafat undertook last December. Since May, we have been urging the PLO to take a position which allows progress toward elections and negotiations. The key to this effort will be to get a dialogue started between Israel and Palestinians from the West Bank and Gaza to structure elections and launch negotiations. To that end, U.S. officials talk both with the Palestinians in the territories and with the PLO in Tunis.

IMPROVING EGYPT-SOVIET RELATIONS

SENATOR KASTEN: A review of press reports coming from Egypt over the last two years reveals a strengthening of relations between Egypt and the Soviet Union on a number of fronts. Indications of expanding ties include: a Soviet tied-loan for the modernization of the Hulwan steel plant, a Soviet offer to finance and build the first coal-operated steam power plant in Sinai in the Uyun Musa region, a Soviet offer to provide technical as well as financial aid to upgrade the Naj' Hammadi aluminium blast furnaces, and a Soviet offer to resume supplying military spare parts to Egypt.

In light of these developments and increasing Egyptian irritation of U.S. demands for economic reform, do you think it likely that the Soviets will succeed in regaining a modicum of political influence with its old ally?

MR. HARE: Egypt is wary of too great a Soviet influence in Egypt and the region as a whole, and because of this has moved carefully in re-establishing ties with the Soviets. Egypt remains committed to its strong partnership with the U.S. We believe Egypt will continue to look to the West for its principal political, trade and assistance partnerships.

STINGERS

SENATOR KASTEN: In its FY89 Report issued on June 22, 1988, this committee declared its belief that the State Department must make a better effort to ensure that the very real limitation on our ability to safeguard Stinger weapons is understood by the Congress before congressional review of future proposals to transfer Stinger systems abroad. The committee directed the Department to submit, by October 30, 1988, a report specifically addressing these limitations. It now has been seven months since the report was due.

Does the Department take the problems associated with Stinger Missile protection seriously. If so, why has this report not been forthcoming?

Mr. HARE: Yes the Department takes seriously the issue of protection of Stinger missiles. In recognition of their effectiveness and because of the risk of diversion, the U.S. has established strict controls over the government-to-government transfer of Stingers. Release is considered by the Department of State provided that the country in question:

1) is allied with the United States, or is a country having a U.S. security commitment, or is a country having an important role in protecting significant U.S. interests;
2) is a country we assess will remain politically stable, and which will remain oriented toward the U.S. and its allies;
3) has a legitimate defense requirement for the system;
4) will have an adequate air defense command and control system at the time the Manpad system is programmed for delivery.

A report to the Committee on Appropriations specifically addressing the limitations of safeguarding Stinger missile systems supplied to foreign nations is in the last stages of preparation, and will be delivered to the Committee shortly.

IRAQ AND CHEMICAL WEAPONS

SENATOR KASTEN: What guarantees do you have from Iraq that it will not use chemical weapons to support offensive operations?

Are you aware of any assistance, financial or technical, provided by Egypt to Iraq for the purposes of enhancing its chemical weapons capability? If so, please comprehensively detail that assistance.

Please describe the nature and sophistication of the chemical weapons program, its methods of delivering these weapons, their potency and their accuracy.

Please provide this committee with a comprehensive list of the countries and the companies which our government knows or suspects of providing Iraq with chemical weapons.

MR. HARE: On September 8, 1988, upon receiving clear proof that Iraq used chemical weapons in its campaign against Kurdish rebels, the Department issued a statement condemning Iraq's unlawful use of CW. Then-Secretary Shultz, meeting that day with Iraq's Minister of State for Foreign Affairs, demanded that Iraq state clearly it would no longer use chemical weapons in violation of international law. On September 17 Iraq's Foreign Minister issued a statement declaring Iraq's adherence to international law, particularly regarding chemical weapons. The Foreign Minister later clarified personally to Secretary Shultz that this applied equally to CW use within Iraq's borders.

Subsequently, Iraq participated in the January 1989 Paris conference on chemical weapons, which reinforced taboos on use of chemical weapons. Iraq has now become an observer at the Conference on Disarmament in Geneva, where over forty nations are drafting a comprehensive ban on chemical weapons. Our only "guarantee" that any country will not use chemical weapons is a track record of good faith built up over the years. In that regard, both Iraq and Iran will have to show their good faith and adherence to international law by future actions.

Regarding the nature and sources of the Iraqi chemical weapons program, it is appropriate, in an unclassified context, to quote directly Judge Webster's March 1, 1989 testimony before the Senate Foreign Relations Committee:

"The war with Iran prompted Iraq to accelerate its program to develop a chemical warfare capability. Iraq has produced chemical agents and munitions since the early 1980s. The main chemical warfare complex, located some 70 kilometers northwest of Baghdad near Samarra, and a number of other production facilities, have produced several thousand tons of chemical agents.

"From the program's inception, firms and individuals from Western Europe were key to the supply of chemical process equipment, chemical precursors, and technical expertise. West Europeans remained at Samarra even after it began operations. But after several years of experience in producing chemical weapons, Iraq's well-established effort now is far less dependent on foreign assistance.

"At Samarra, Baghdad produces the blister agent mustard and the nerve agents tabun and sarin. Several types of weapons--including bombs, and artillery shells and rockets--have been filled with these agents.

"Iraq first made military use of chemical agents in 1983 and 1984, when it began to use mustard and nerve agents against Iranian forces. Baghdad continued to use chemical agents on numerous occasions during the war. More recently--and subsequent to the cease-fire with Iran--Iraq used lethal and non-lethal chemical agents against Kurdish civilians.

"Despite the current cease fire with Iran, Iraq continues to produce and stockpile chemical weapons. Moreover, it is expanding its chemical weapons capability and is taking further steps to make its program entirely independent of foreign assistance."

SOMALIA AND CHEMICAL WEAPONS

SENATOR KASTEN: Can you confirm for this committee that Somalia has acquired chemical weapons from Libya and has used them in its battle against the rebel opposition?

MR. HARE: We cannot confirm that, nor do we give credence to such reports. The Somali government, moreover, categorically denies possession of or plans to obtain or use chemical weapons. We believe the Somali government is well aware of its international responsibilities concerning chemical weapons, and we have made clear to its leadership our strong opposition to the proliferation and use of chemical weapons anywhere in the world.

TELECOMMUNICATIONS IN EGYPT

SENATOR KASTEN: In the December 1988 issue of GIST, the State Department noted that "Communications and information technologies, such as computer networks and communications satellites, have revolutionized the way nations do business and interact. As technology has advanced, telecommunications have become increasingly vital to U.S. political, economic, and national security interests...Driven by rapid technological change, the international telecommunications environment has become highly competitive and complex, presenting the U.S. with great challenges and opportunities." Support for telecommunications projects in Egypt is demonstrating these important principles and providing opportunities for U.S. suppliers to introduce our latest technologies.

At the end of Fiscal Year 1988, A.I.D. signed an agreement with the Government of Egypt for the expansion of the telephone system in Cairo, TELECOM IV. We understand this is moving forward, albeit very slowly. Why is this program moving so slowly? Egypt has urgent telecommunications needs, and this program seems to be moving at a crawl.

DR. ADELMAN: The Telecommunications IV project is proceeding well and is essentially on schedule. Negotiations with Teleconsult, Inc. to provide consulting engineering services are underway and should be completed by the end of August 1989. If all goes according to plan, advertising for the contracts for the digital central office switching and related outside plant equipment should be issued by March and July 1990, respectively. A.I.D. currently has no follow-on activity planned beyond the Telecommunications IV project. A.I.D. recognizes the importance of modern telecommunications systems in the development of efficiency in all sectors of the Egyptian economy particularly to support a growing private industrial sector and is prepared to consider financing technical assistance and operations and maintenance activities for the telecommunications sector, as requested.

SENATOR KASTEN: What plans does the Administration have for follow-on activities to enhance telecommunications in Egypt and elsewhere in the Middle East as a component of sustainable development?

DR. ADELMAN: At present there are no definite plans for assistance to additional telecommunications systems in Egypt or in other countries in the Middle East/South Asia region. We would, however, be willing to consider requests in this area.

SENATOR KASTEN: The telecommunications industry is undergoing a fundamental transformation as a result in changes in technology and now represents a tremendous opportunity for U.S. suppliers of equipment and services. Does the Administration believe it has sufficient legislative authority to support programs in this area when asked by an A.I.D.-assisted country?

DR. ADELMAN: As evidenced by the considerable amount of assistance we have provided in the area of telecommunications modernization in Egypt, A.I.D. has sufficient authority to respond to requests for similar assistance.

SENATOR KASTEN: Egypt, the most populous country in the Middle East, intends to increase its telephone density in Cairo and Alexandria to reach 20 telephones per 100 population by the year 2010. All electro-mechanical switches would be replaced by digital equipment. Has the Administration factored this growth opportunity for U.S. suppliers into its development strategies for Egypt?

DR. ADELMAN: In accordance with the A.I.D.-financed 20 year master plan, The Arab Republic of Egypt National Telecommunications Organization (ARENTO) plans to reach a telephone density of 7 telephones per 100 persons by the year 2000 (current density is 2.2 per 100). This effort will require the addition of approximately 250,000 lines per year. We are cognizant of digital equipment replacing electro-mechanical switches in Egypt. The Telecommunications IV project, agreed upon in September 1988, provides for the procurement and instruction of two digital telephone exchanges. Although we currently have no follow-on activity planned in this area, we remain open to GOE requests and will consider them in line with other GOE priorities.

SENATOR KASTEN: A similar question on U.S. development strategies in outyears can be asked about the opportunity to assist the Government of Egypt in establishing a network control center for integrating the equipment of numerous suppliers into a cohesive, economical system much like what we have in this country. Has this been factored into development planning?

DR. ADELMAN: We agree that the establishment of a network control center for integrating the equipment of the numerous suppliers would be a reasonable and cost-effective project and have discussed it on numerous occasions with ARENTO. ARENTO has procured from different suppliers several centralized operations and maintenance centers, each serving telephone exchange equipment from that same supplier. ARENTO believes that these centers are adequately addressing their current needs and accordingly does not consider the establishment of a network control center of high priority at this time.

SENATOR KASTEN: Can you assure this Committee that all funding presently identified for the Telecom IV project will remain dedicated to the telecommunications sector in Egypt?

DR. ADELMAN: Funds for Telecom IV project in Egypt were obligated in FY 1988. That project is now under active implementation. A.I.D.'s full expectation is that all Telecom IV funds will be dedicated to that project, and to that project only, until its completion.

SENATOR KASTEN: What other activities in this sector are planned for countries in the region beyond Egypt?

DR. ADELMAN: At present there are no definite plans for telecommunications system assistance in other countries in the Middle East, South Asia region. We would, however, be willing to consider requests in this area should development planners in these countries propose modernization programs.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

AFGHANISTAN

SENATOR D'AMATO: Are we still providing military assistance to the Afghan resistance? If so, do we continue to provide the mujahidin with modern weapons such as the Stinger and long-range mortars?

MR. HARE: We are continuing our strong material support to the mujahidin. As for military assistance, I cannot go into details in this forum.

INDIA'S MISSILE PROGRAM

SENATOR D'AMATO: U.S. attention has long focused on the threat posed by Pakistani acquisition of nuclear weapons. What initiatives have we undertaken to stop the Indian missile program that fuels the Pakistani desire for an equivalent capability?

MR. HARE: We recognize the limitations we have on controlling missile proliferation in South Asia. India's ballistic missile program is largely indigenous and therefore subject to very limited influence from the United States. Nonetheless, we have made known our views concerning the destabilizing effects of a missile race in South Asia to both India and Pakistan and urged them to discuss this issue bilaterally. We intend to continue our diplomatic efforts vigorously in this area.

I would also point out that our policy has remained consistent with our obligations under the Missile Technology Control Regime: we will not assist any country in the development of ballistic missiles and we will ensure that U.S. exports and other forms of high technology cooperation do not contribute to the proliferation of ballistic missiles.

As a final point, I would like to note that India has pledged not to export either its missiles or missile technology to other countries and not to fit any of its missiles with nuclear warheads. We believe these pledges are helpful measures from the standpoint of our missile proliferation policies.

SUBCOMMITTEE RECESS

Senator **DeConcini**. The subcommittee will stand in recess until 2 p.m., Thursday, June 15. At that time we will receive testimony from the World Bank; International Development Association; International Finance Corporation; International Monetary Fund; and Multilateral Investment Guaranty Agency.

[Whereupon, at 3:35 p.m., Tuesday, June 13, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, June 15.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

THURSDAY, JUNE 15, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:10 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Lautenberg, Kasten, Specter, and Nickles.

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. NICHOLAS F. BRADY, SECRETARY OF THE TREASURY

ACCOMPANIED BY CHARLES DALLARA, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

OPENING REMARKS OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Mr. Secretary, we are glad to have you here. I apologize for my rare case of the flu, which caused us to cancel once before. I am glad it has worked out.

Going over the preparation material for this hearing, I notice that the foreign debts of developing countries are now up to $1.3 trillion and they are still climbing. Of course, that puts tremendous strains on their economies. I think the Third World countries now pay back lenders in the wealthy countries about $125 billion annually, around $30 billion more than they get in new loans.

Some of them are spending about one-half of all their export earnings just to pay debt service, not paying back the debt, but just the debt service.

Well, that economic decline has been damaging for our own economy. An estimated 1.8 million jobs, or a quarter of all American unemployment, and more than $350 billion in export earnings to the Third World, have been lost.

We have promoted economic growth in developing countries with large amounts of new lending. But that strategy is not successful in reducing the debt burden; it has not led to significant growth. Most countries are now deeper in debt than ever. And then we see the political and economic turmoil in Venezuela, Zambia, Argentina, and elsewhere. We have to ask whether there is a real serious implication for our own foreign policy interests.

In the Brady proposal, Mr. Secretary, I believe you take an important first step. For the first time the administration has acknowledged that debt reduction is the essential part of any new debt strategy. There is a long way to go, but I want to compliment you for getting the process started at last.

I know it is a matter of concern for you. I had what I consider to be a very distinct privilege to have served in the Senate with you. And I know that this is not a subject that you came by just recently. I remember your concerns from our own discussions back then.

You have asked for funds to pay for arrearages to the multilateral banks, for a contribution to the enhanced structural adjustment facility to the IMF.

I have some concerns about structural adjustment. We cannot have economic reform simply by increasing poverty. But the new facility makes sense if it will truly alleviate hardship caused by reform. I am not sure where all the money is going to come from to pay for it, so naturally, we want to hear from you. I yield to my good friend from Wisconsin, Senator Kasten.

OPENING REMARKS OF SENATOR KASTEN

Senator KASTEN. Thank you, Mr. Chairman.

I want to join with you in welcoming Secretary Brady in the first appearance before us. We look forward to working with you on these and other issues.

As I believe you know, Mr. Secretary, this subcommittee played a key role in securing approval for the general capital increase of the World Bank. Without our support, frankly, I think that approval would not have been secured. I supported that effort; and right now, I regret that I did so. I think that my concern is shared by a large number of Senators on both sides of the aisle.

We regret that we supported the capital increase in view of the action taken this May by the World Bank to give its already highly-paid employees a large salary increase; a salary increase at a time when the salary increase question for Members of Congress and judges was being debated here on Capitol Hill.

I am unhappy also with the administration for failing to let us know that this plan was being hatched, if you will, at the time when we approved the GCI. I suspect that we could have exercised some leverage at that time in preventing this salary increase from happening when we had the opportunity of voting yes or no on the general capital increase.

We will have a number of questions on this issue later in the hearing, but I wanted to state at the outset my strong concern and objection to the salary increase at the World Bank.

What has happened now is we have a replenishment agreement for the Inter-American Development Bank before us; and before I am going to support that replenishment, we must have some kind of an understanding that the Inter-American Development Bank does not follow this cycle of salary increases. Next in line would be the African Development Bank, the Asian Development Bank, the whole group.

I think it is important that we stop this if we can.

Another matter of concern to me is the effect on the environment of World Bank programs and projects. We have made some good strides in this area with your help and support; and the Treasury has been very, very helpful to us.

Lastly, I want to express to you the strong support that many of us on the Hill have for the proposal that is now under discussion with respect to debt relief or debt restructuring for the Philippines. I think that it is an ambitious and imaginative approach to the problems of the Philippines.

I look forward to working with you on refining and defining that overall program. I just wanted you to know that there is a good deal of support here for the efforts that are being made to try to work through some of the problems with the Philippines.

Mr. Secretary, I look forward to your testimony and we look forward to working with you on the appropriations bill.

Thank you, Mr. Chairman.

Senator **Leahy**. Thank you very much.

Senator Lautenberg.

OPENING REMARKS OF SENATOR LAUTENBERG

Senator **Lautenberg**. Thank you, Mr. Chairman.

I will not take much time at the moment except to welcome Secretary Brady, who is a fellow New Jerseyite, as everyone knows; the former occupant of the chair in which I sit; and from the corporate community now here in Washington.

It is a pleasure to see you and to alert you that I have a few questions related to the environmental impact of decisions that we make in some of the lending institutions. I will be addressing my remarks or my questions to that area.

I thank you, Mr. Chairman, for the opportunity to participate today.

Senator **Leahy**. Senator D'Amato.

OPENING REMARKS OF SENATOR D'AMATO

Senator **D'Amato**. Thank you, Mr. Chairman. I want to welcome my good friend, Nick Brady. I appreciate your appearing here this morning to testify.

The recent IMF riot in Venezuela was a vivid reminder that business as usual will not suffice in addressing the debt crisis. We face a catch 22 situation. Democratic governments we are trying to promote are extremely susceptible to public unwillingness to accept austerity. Unpopular reforms are most easily implemented by authoritarian regimes we do not support.

It is essential that we spark economic growth in the Third World before popular unrest begins to destabilize friendly governments. The Baker plan proved to be too little, too late; therefore, I welcomed the program of debt relief outlined by you, Mr. Secretary, on March 10.

Not unexpectedly, your plan has come under fire from a variety of different directions, many from within the administration itself. I will be interested to hear whether a consensus now exists.

Thank you, Mr. Chairman.

OPENING REMARKS OF SECRETARY BRADY

Senator **Leahy**. Mr. Secretary, I am delighted you are here. I know you were down in Georgia earlier today with the President. I am glad you were able to be back here. The floor is all yours.

Secretary **Brady**. Thank you, Mr. Chairman.

I would like to introduce Assistant Secretary Charles Dallara, who is head of the OASIA, which is the office in the Treasury that deals with the international aspects of Treasury's operations, who is with me here today.

I would also like to thank you for your forebearance in arranging this time. I know that we had hearings scheduled before, which schedule commitments made difficult, and your understanding and the committee's understanding are deeply appreciated.

I have a formal statement which, if you will allow, I will submit for the record, and I have an oral statement, which would run some 10 minutes. But I understand we are under a time constraint, so if you can stand letting me pick the pieces out, which may not go together grammatically, I will proceed in that manner and we will save a little time.

Senator **Leahy**. Thank you.

FISCAL YEAR 1990 REQUEST

Secretary **Brady**. Let me begin by stating that for the fiscal year 1990, the administration is requesting $1.637 million in budget authority and $2.377 million under program limitations for subscriptions to the MDB's.

It is worth emphasizing, Mr. Chairman, that exclusive of U.S. funding shortfalls from previous years, which comprise $314 million of this appropriation request, administration requests for the MDB's have not increased since fiscal year 1985. Thus, there has been no growth in our basic MDB request for the past 4 years, and we are not proposing an increase this year.

For fiscal 1990, we are also seeking $150 million in budget authority to fund U.S. participation in ESAF. The specific request for each MDB window and the ESAF are presented in an annex to my written statement.

Mr. Chairman, the MDB's are important vehicles for promoting U.S. economic, political, security, and humanitarian interests.

Senator Lautenberg just mentioned the environment. The forcefulness of our point of view and our ability to attain a consensus of view points regarding the environment are to a large extent dependent on our being full paid members of the club. There are not any junior memberships in these organizations, and it is vitally important, in my opinion, that the United States does its share.

We want to play a leadership role, and for this reason it is critical that we participate actively in new funding. Unfortunately, in the 1980's, the United States has been unable to meet its financial commitments to the MDB's on a timely basis.

Here is a sentence that absolutely knocks me out: We are, in fact, in arrears to several of these institutions, and we are the only highly-industrialized country in the world to be in that position. We must do better in meeting our commitments if we realistically expect the MDB's to work actively to fulfill their policy commitments to us on vital issues, including the debt strategy and, of course, the environment.

Our credibility as a leader in these institutions is at stake and I, therefore, must urge full funding, including eliminating arrears for the World Bank and each of these development banks.

I cannot over-emphasize, just as a personal comment, how difficult it is to represent the United States in these organizations where we are looked up to by countries all over the world and still be in arrears. It is a situation, in my opinion, that we must regard seriously. If we want to get cooperation on the environment and the debt strategy, we cannot be the only large industrialized country in the world that has not paid its dues. To me, it is shocking.

Let me just say a few words about the environment. Global warming and other environmental matters are now of major international concern. The adverse effects of climate change and ozone depletion will not stop at national boundaries. These issues are global in nature and we must develop new and cooperative ways to deal with them more effectively.

Members of this committee have shown a great deal of leadership in galvanizing the MDB's to action on these matters, working closely with members of the Treasury and other members of the executive branch.

Important headway on various levels has been made over the past year and we are fully committed to doing more in this important arena. All of us are looking to these institutions to play a critical role in helping to keep this planet and our environment habitable.

Again, as with the debt strategy, if we maintain our leadership role, we must back up our policy initiatives with financial support.

If I may just go to the conclusion in order to save a little time, Mr. Chairman, I want to emphasize the administration's commitment to and full support for the MDB's and U.S. participation in the IMF enhanced structural adjustment facility. These institutions are vital to our national interest, particularly our efforts to strengthen the international debt strategy. It is critical that we provide full funding for U.S. participation in order to maintain U.S. leadership on debt issues and to ensure that the strengthened strategy is implemented.

Although the MDB's and the IMF are central actors in the debt strategy, these institutions also serve U.S. interests in a variety of other ways. We rely on the MDB's to promote environmental policies; we depend on them to promote our security and humanitarian interests. Furthermore, the MDB activities are important to the U.S. economy, since success in promoting sustainable growth will increase effective demand among developing countries for U.S. exports.

I recognize fully that even in the best of circumstances supporting foreign assistance is never popular. Fortunately, the burden of financing the operations of these institutions is shared by all member countries. Consequently, U.S. interests in developing countries can be pursued through these institutions without the United States bearing the full burden.

I just want to emphasize that point. Because of our position, because of the weight of the United States' opinion in these organizations' affairs, we are able to make policy initiatives that we think benefit this country, while not putting up the full costs of those programs ourselves. This is particularly important during periods of severe budgetary constraint, as we are now going through in this country.

I strongly believe that it is imperative that we support these institutions in their important tasks, not only by participating actively in new MDB replenishments, but also by honoring past due financial commitments to them.

Thank you, Mr. Chairman. I hope that was not too abbreviated.

[The statement follows:]

STATEMENT OF NICHOLAS F. BRADY

I welcome this opportunity to discuss with you the Administration's fiscal year 1990 budgetary proposals for the Multilateral Development Banks (MDBs) and the IMF's Enhanced Structural Adjustment Facility (ESAF).

I want to begin by commending the Committee and its staff for your excellent work last year in passing a separate, stand-alone foreign assistance appropriations bill. As members of this Committee know only too well, that was a signal achievement. The Administration attached considerable importance to that legislation, and we recognize and very much appreciate the constructive role played by this Committee. We also value highly the frank and informative bipartisan dialogue that was evident throughout the process leading up to enactment of the legislation.

For fiscal year 1990, the Administration is requesting $1,637 million in budget authority and $2,377 million under program limitations for subscriptions to the MDBs. It is worth emphasizing, Mr. Chairman, that exclusive of U.S. funding shortfalls from previous years, which comprise $313 million of this appropriation request, Administration requests for the MDBs have not increased since FY 1985. Thus, one might say that U.S. funding for the the MDBs has had its own nominal freeze in place for the past four years, and we are proposing to continue that this year.

For FY 1990 we are also seeking $150 million in budget authority to fund U.S. participation in the International Monetary Fund's Enhanced Structural Adjustment Facility (ESAF). The specific requests for each MDB "window" and the ESAF are presented in the annex at the end of my testimony.

THE STRENGTHENED INTERNATIONAL DEBT STRATEGY

As you know, we have proposed a new approach to strengthen the debt strategy and to provide financial support for debtor countries' efforts to reform their economies and achieve sustained economic growth. This strengthened strategy puts new emphasis on debt and debt service reduction as a complement to new lending, while also giving more attention to investment and flight capital repatriation as important sources of capital for debtor countries.

The key elements of this strategy are:

- adoption of sound economic policies, with stronger emphasis on measures to increase foreign and domestic investment and the repatriation of flight capital;
- timely support from the IMF and World Bank for debtor countries' reform programs, including through debt and debt service reduction transactions; and
- active participation by commercial banks in providing debt reduction, debt service reduction, or new lending to debtors implementing economic reforms.

Since the strategy was outlined in early March, we have made significant progress in developing its operational details and moving toward implementation.

The IMF and World Bank have recently adopted guidelines governing their support for debt and debt service reduction. For countries requesting such support, the IMF and World Bank will set aside approximately one-fourth of their regular policy-based lending programs to support debt reduction. The IMF will provide additional resources of up to 40 percent of a country's quota for interest support. The World Bank also will make available additional resources to support interest payments in connection with debt or debt service reduction transactions.

This financing will be available to countries with large external bank debt which have adopted sound medium-term adjustment programs and which can demonstrate a clear need for debt and debt service reduction to accomplish medium-term growth and development objectives. Sound adjustment programs will include measures aimed at encouraging foreign investment and flight capital repatriation and should, in our view, also emphasize debt/equity swap programs.

Mexico, the Philippines and Costa Rica have already received IMF Board approval for strong economic programs which provide support for debt reduction. These countries have also initiated discussions with the commercial banking community on financing arrangements that could take advantage of the IMF and World Bank policies and financing. Simultaneously, the Paris Club has agreed to reschedule both outstanding principal and interest obligations of these three countries. Japan, which has agreed to provide an additional $4.5 billion in support of the strengthened strategy, is currently discussing with Mexico and the Philippines specific commitments to support their programs.

In short, the official community has acted expeditiously to clarify the nature and amount of support it will provide to facilitate debt and debt service reduction. The official community has also made clear the importance of sound economic programs. It is important that commercial banks and debtor countries now reach agreement on financing packages which include debt reduction, debt service reduction, and new money to help provide the external financial basis for sustained growth.

The Role of the MDBs in the Debt Strategy

As you can see from the above, the World Bank is critical to successful implementation of this debt strategy. In addition to providing the financial support that I have outlined, the World Bank has vital expertise and credibility which are fundamental to helping design and implement reforms in the various sectors of debtor economies. Debtor countries depend on the Bank in their efforts to liberalize trade, reform labor markets, develop financial markets, increase the role of the private sector in improving employment and efficiency, and liberalize their investment policies.

The World Bank's project lending activities are also important to the debt strategy, since they affect policies at the micro and sector levels which are key to stimulating growth. Project loans still comprise about 75 percent of total lending. These loans cover a wide range of sectoral and development projects in borrowing countries, rehabilitating or restructuring existing enterprises and expanding productive capacity. They have financed country projects in agriculture and rural development, transportation, education, industry, energy, health and nutrition, water supply and sewerage, urban development, and telecommunications. This type of capital transfer complements, on a micro-level, the World Bank's efforts to help countries implement broader-based structural reforms.

The regional development banks will also play an important role in supporting the strengthened debt strategy. The operations of the African, Asian, and Inter-American Development Banks complement and support the policy reforms promoted by the World Bank and the IMF. As the World Bank seeks to expand the array of sectoral and structural adjustments targeted by its lending, the regionally focused institutions can help reinforce the incentives for debtor countries to implement policies that will lead to sustainable growth and recovery. In particular, we expect the Inter-American Development Bank, now that agreement has been reached on a capital increase, will undertake lending programs that encourage its borrowers to adopt policies that will contribute to their economic recovery.

U.S. Commitment to the Debt Strategy

It is important for the United States to back up its conceptual and policy leadership on this issue with funding for all these institutions as they seek to make the strengthened strategy work for debtor countries. The United States cannot expect to maintain leadership if we do not participate actively in new funding for these institutions and honor the payment schedules agreed to during replenishment negotiations.

Unfortunately, in the 1980s, the United States has been unable to meet its financial commitments to the MDBs on a timely basis. As one example, the United States is over two installments behind in its purchase of shares in a capital increase for the International Finance Corporation (IFC) which supports private sector development activities strongly endorsed by the United States. We are also concerned that as the United States arrears on funding for the World Bank GCI continues to grow, we will not be able to meet our scheduled purchase of shares in the Bank. As this occurs, it could place us in jeopardy of losing our veto over changes in the Bank's Charter. This would seriously undermine our leadership position in the Bank and internationally.

Frankly, this is not good government and does not speak well for the United States. We must do better in meeting our commitments if we realistically expect the MDBs to work actively to fulfill their policy commitments to us. Our credibility as a leader in these institutions is at stake, and, therefore, I urge full funding for the World Bank and each of the regional development banks.

ENVIRONMENT

Debt, however, is not the only major issue that needs U.S. leadership and the assistance of the MDBs. Global warming and other environmental matters are now of major international concern. The adverse effects of climate change and ozone depletion will not stop at national boundaries. These issues are global in nature, and we must develop new and cooperative ways to deal with them more effectively.

Members of this committee have shown a great deal of leadership in galvanizing the MDBs to action on these matters, working closely with the Executive Branch. Congress, in fact, has given the Executive Branch a substantial mandate under current law to promote a heightened environmental awareness in the MDBs and to assure that progress on this front is achieved in the developing countries. Important headway on various levels has been made over the past year and we are fully committed to doing more in this important area. All of us are looking to these institutions to play a critical role in helping to keep this planet and our environment habitable.

Largely through U.S. efforts, the Development Committee Communique of April 4 noted that members stressed the increasing importance attached to environmental issues and to the timely dissemination of environmental information on Bank-supported operations. In addition, the Committee agreed to discuss at its next meeting the Bank's efforts to support the environment, including the integration of environmental concerns in Bank operations and measures to increase public awareness of World Bank environmental activities.

Again, as with the debt strategy, if we are to maintain a leadership role, we must back up our policy initiatives with financial support. To help convince you that such support is warranted, I would like to review some of the reforms now under way to strengthen the MDBs' effectiveness in addressing environmental concerns.

Recent Reforms

The Inter-American Development Bank (IDB), as part of the recently negotiated replenishment agreement, is to establish an environmental line unit to assist in evaluating environmental aspects of projects early in the project cycle. It was the United States Government that called publicly for the establishment of this unit, first at the Bank's Annual Meeting in Caracas in 1988, and again at this year's Annual Meeting in Amsterdam. The IDB has also held five environmental seminars for members of its technical staff and estimates that 80 percent of its operational staff has now completed the training.

The African Development Bank (AFDB) established its own environmental line unit in 1988. This unit is headed by a recently recruited African expert who is assisted by three experts seconded from industrial countries, including one from the United States seconded under the provisions of an AID technical assistance program. The African Development Bank is also working with the Sierra Club, the Natural Resources Defense Council, and the American Farmland Trust to set up a conference to increase cooperation between environmental agencies and non-governmental organizations (NGOs) in four of its borrowing countries. This initiative, which we encouraged at the AFDB's Annual Meeting in Abidjan last year, is not proceeding as rapidly as we had hoped. However, we look forward to the conference taking place in the second half of this year.

The World Bank renewed and strengthened its pledge to environmental reform in the Executive Directors Report on the General Capital Increase that was negotiated in 1988. Language in the report, that was agreed among both developed and developing countries, called specifically for "better management of natural resources and for integration of environmental work into country development strategies, policies and programs; the evaluation of environmental costs of projects, and mitigation or elimination of adverse effects." Our job now is to see that this pledge is fulfilled. This year, the Bank almost doubled last year's administrative budget for environmental work, increasing it to $9.4 million in FY 1989 compared with $4.8 million in FY 1988. We are working to assure that a further increase dedicated to environmental work will be set aside for next year, particularly in the regional units which monitor the project appraisal process.

The Asian Development Bank (ADB) established an environmental line unit in 1987. That unit was upgraded to divisional status earlier this spring, and new staff are being recruited. The Bank is continuing to work on refining the participation of the unit in the project cycle. The role of this unit is set out in the Bank's initial paper on "Preliminary

Environmental Screening of Loans and Technical Assistance Projects." In addition, the Bank has published other papers covering secondary screening procedures and provisions for participation of environmental specialists in loan and technical assistance appraisals. It is also focusing greater attention on environmental protection measures in loan agreements and in documents that give guidance to missions and to post-evaluation and review operations.

I have provided only a very brief summary of some of the progress we have made in the MDBs on environmental issues over the past year. More information is included in the Annual Report that we submitted to Congress earlier this year.

Tropical Forests

No environmental issue has engaged more public concern than the destruction of tropical rain forests. The U.S. Government is determined that the MDBs will adopt policies and procedures for protective measures in the appraisal of projects that may adversely affect these forests and other fragile eco-systems. We have taken several steps to increase international understanding of the importance of this issue and to build greater support for measures to protect all such eco-systems that may be threatened by development projects and programs.

In April of last year, Treasury released its own standards for U.S. evaluation of MDB projects affecting tropical moist forests. These standards, developed with support from more than 50 environmental groups in this country, were immediately made available to the management and staff of the World Bank and to the regional development banks. They were also tabled at an ad hoc meeting of environmental experts held under the auspices of the Organization for Economic Cooperation and Development (OECD) in Paris last May. We have made arrangements to see that they will be discussed again at a follow-on meeting of the OECD's Development Assistance Committee that is being held in Paris this week.

Other Initiatives

We have also released U.S. standards for evaluating MDB projects adversely affecting wetlands and Sub-Saharan savannas and we are now working with the Natural Resources Defense Council and other environmental organizations to complete standards for protecting important marine areas such as coral reefs and seagrasses.

In addition, Treasury has set up an informal working group with Greenpeace to exchange views on more effective measures to encourage integrated pest management. Another group is being organized to help us address energy efficiency and conservation issues. I am hopeful that we will have more progress to report in both of these important areas by the time of our next report.

Assessment of Environmental Impact

It is imperative that appropriate environmental impact assessment procedures be established within the MDBs and in borrowing countries. There is also a critical need for the MDBs to provide environmental information on projects to the public in advance of Board action. I stressed the importance of environmental issues at the Annual Meeting of the World Bank in Berlin last September. In March of this year, I wrote a letter to President Conable emphasizing the importance we attach to providing access to information and the need for the Bank to act more quickly in this area. In April, we made a statement to the World Bank's Development Committee highlighting once more the importance of prompt action. I have urged my colleagues in other developed countries to support these efforts, and we will press hard in the months ahead to get international agreement on appropriate procedures.

We will be most effective if we can mobilize international support for environmental impact assessment procedures and access to information, and work with our colleagues from other countries, both developed and developing, in establishing procedures that are acceptable to all member countries.

For that reason, we have highlighted these two elements of environmental reform in U.S. speeches at the annual meetings of the regional development banks this spring. We have taken a similar tack at the ministerial meeting of the Organization for Economic Cooperation and Development held earlier this month in Paris, and we plan to raise these issues again at the Summit meetings in July. These issues have also become key conditions in our negotiations for replenishment of IDA resources. We need to focus our efforts on bringing about the changes that we think are important within the MDBs and in the countries that borrow from them.

We have serious reservations regarding legislation to extend National Environmental Policy Act (NEPA) procedures to U.S. votes in the banks. Extension of NEPA would move the focus of our efforts away from reform of MDB procedures, which is the right focus, to internal U.S. Government procedures. We are also concerned that extension of NEPA could be viewed as a unilateral U.S. approach that would generate opposition to our proposals and hold back our efforts to promote reform. On the other hand, I would strongly support an initiative that seeks to develop appropriate procedures within the MDBs. Such procedures might well be based on other procedures already established in member countries or accepted by international organizations.

OTHER U.S. INTERESTS IN THE MDBs

I believe there is more than ample reason for the United States to support the MDBs based on the international debt and environmental considerations which I have just reviewed. However, since U.S. interests in these organizations cover many areas, as this Committee is well aware, let me quickly review other dimensions of U.S. interests in fostering a strong foundation for the multilateral development banks.

First, they support our geo-political and strategic interests. The MDBs lend to countries that are strategically important to the United States, such as Turkey, the Philippines, and Mexico. MDB involvement leads to further cooperation on a number of fronts, including controlling international migration, and promoting democracy and human rights.

Second, the MDBs advance the broad U.S. economic objective of promoting the growth of a free, open, and stable economic and financial system. They do this by encouraging and supporting developing country movement toward more open trade and capital flows, including greater reliance on the private sector and free-market pricing policies.

Third, the MDBs support U.S. objectives to improve the quality of life for impoverished people throughout the developing world. They provide, particularly through their soft loan windows, special funding for social programs and generally promote overall economic growth and productivity in developing countries.

Finally, stronger, more stable, growing developing country economies directly help the U.S. economy: they contribute to an expansion of employment in the United States through increased exports. Let me elaborate on this point to underscore just how important this is for the U.S. economy.

Agriculture

The agriculture sector illustrates this vividly. Six out of every ten people in developing countries depend on agriculture and related pursuits for their livelihood. Hence, the most direct way to increase incomes in these countries is to assist agriculture. Indeed, the MDBs are a prime source of project finance and technical advice in this key sector. Overall, more MDB lending goes into the agriculture sector than any other -- roughly 25 percent annually.

In poorer countries, up to 60 percent of increased income is spent on food and upgrading the quality of the diet, and this virtually always translates into more animal protein in the diet. Production of more animal protein, in turn, requires more feed grains and soybean meal -- products that U.S. farmers produce more efficiently than any others in the world. In fact, the output from one in four U.S. cropland acres enters export markets, creating nearly one million farm and off-farm jobs. Roughly 40 percent of U.S. agriculture exports is sold in developing countries. Hence, living standards in the Third World, where diets have ample room to grow, will probably play a greater role than any other factor in determining whether U.S. agriculture will stagnate or flourish.

South Korea's recent economic performance illustrates the potential for increased U.S. exports. Since 1982, per capita consumption of livestock products increased from 18 to 25 kilograms per year, a 39 percent increase, which is very high compared to the relatively flat consumption patterns in the United States and Europe. The quantity of U.S. feed grains and soybean exports to Korea doubled in the period from 1980 to 1987. It is important to note in this connection that the MDBs played a key role in Korea's economic success: MDB loans to Korea have totaled over $8.7 billion.

Information Technology

A sector that is becoming increasingly pivotal to growth in all countries is information technology. Within a matter of decades, government and commerce in the industrialized world have become dependent on rapidly changing computer hardware and software and the new forms of telecommunications -- satellite transmission and optic-fiber cables -- that link computers, telephone, and television. But information technology can also be invaluable in agricultural research, health services, and other traditional development activities. Proper utilization of these technologies can help economies run much more efficiently. Microelectronics, for instance, can help countries make better use of electric power, thus limiting capital costs; and computerization of financial and economic data increases their accuracy and utility for growth and development several fold.

The MDBs can play a critical role in helping developing countries gain access to information technology. Indeed, we believe that this is an area in which there is considerable scope for greater MDB activity, particularly by the World Bank.

Not only is strengthening the information technology capability of developing countries in their self-interest, it is in our self-interest as well. A growing, more productive economy is a growing market for U.S. exports. But more directly, the U.S. is a world leader in this sector. As the developing countries grow and increase their purchases of information technology hardware and software, U.S. producers should be well poised to secure much of this business. In recent years U.S. exports of computers and business equipment to developing countries have jumped dramatically. Korea went from importing $161 million in 1984 to $489 million in 1988, a 300 percent increase; and Mexico increased from $338 million to $602 million, almost a 180 percent increase during a period when their ability to import has been sharply curtailed.

U.S. Business Contracts

In this context, it is useful to note that business contracts resulting from MDB projects are a direct and tangible benefit stemming from U.S. participation in the MDBs. These contracts are composed of three related elements. First, there is the procurement stemming directly from MDB-provided finance. U.S. businesses secured roughly $1.9 billion in contracts from the MDBs last year. This compares with U.S. budget expenditures for the MDBs averaging about $1.3 billion annually. Secondly, since the MDBs only provide a portion of the finance needed for a project, there are other procurement possibilities generated by non-MDB finance for a project.

Finally, the business contacts established through U.S. business participation in bidding on MDB projects leads to follow-on business. For instance, Morrison-Knudsen, a U.S. engineering and construction firm, and ECI International, a U.S. firm specializing in the supply of educational and vocational training equipment, have sent letters to Congress noting that contacts established on an MDB project are helpful in pursuing non-MDB opportunities. In sum, MDB projects are an important nexus for the development of U.S. exports.

To assist U.S. businesses in competing for MDB contracts, the Omnibus Trade Act required the appointment of commercial officers to serve with each of the U.S. Executive Directors at the MDBs. The Treasury Department is consulting with the representatives of the International Trade Administration and the Foreign and Commercial Service about these appointments. It is expected that the positions at the Asian and African Banks will be filled in the near future. In addition, Treasury is working with the MDBs to improve the quality and timeliness of information about contract awards on MDB projects.

Burden-sharing

Fortunately, the burden of financing the operations of these institutions is shared by all member countries. Consequently, U.S. interests in developing countries can be pursued through these institutions without the United States bearing the full burden. This is particularly important during periods of severe budgetary constraint.

We currently maintain a 34.5 percent share in the capital of the Inter-American Development Bank. Our shares in the other international financial institutions are much lower. In recent years the contributions of other donor countries -- including some developing countries -- to these institutions have increased relative to the United States as their respective economies have grown and prospered. This is particularly important for MDB concessional lending operations where all contributions are fully paid in.

For their market-related lending operations, the MDBs leverage the callable capital guarantees of member countries to borrow funds on private capital markets. Hence, the majority of MDB loans are financed with relatively small cash outlays from MDB members and are cost-effective when compared with U.S. bilateral economic assistance.

In FY 1988 the United States provided $3.1 billion in foreign economic assistance (Development Assistance and the Economic Support Fund) to 75 countries, exclusive of Israel, Spain, and a few other higher income countries. These countries received U.S. assistance to engender close cooperation and enhance our national interest through increased political, economic, and military stability in the Third World. These same countries received additional commitments of $18 billion from the MDBs -- but at a cost to the United States of only $1.2 billion in budget authority. Hence, for about one-third the budget cost of all our bilateral aid programs, U.S. payments to the MDBs leverage lending programs that are almost six times as large as our bilateral programs.

In addition, the MDBs provide considerable finance and technical assistance to countries such as Argentina, Brazil, and Mexico that are of considerable geo-political importance to the United States -- but which receive virtually no bilateral U.S. economic assistance. The MDBs made commitments of over $5 billion to these countries in FY 1988.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF)

In addition to our requests for funding of the MDBs, the Administration is seeking authorization and appropriation in FY 1990 for a modest $150 million contribution to the Interest Subsidy Account of the Enhanced Structural Adjustment Facility (ESAF) of the International Monetary Fund (IMF).

In recent years, the international community has adopted a comprehensive approach to help the poorest countries, particularly those in Sub-Saharan Africa, to implement the structural economic reforms which are essential for the increased growth and development necessary to alleviate poverty and improve basic human needs. This approach draws upon the collective efforts of the IMF, World Bank, and official creditors.

The ESAF represents the centerpiece of the Fund's efforts to address the plight of the poorest countries. It was established in 1987 to enable the IMF to provide financial assistance on concessional terms to the poorest countries experiencing protracted balance of payments problems and prepared to undertake multi-year economic reforms. It builds upon the IMF's Structural Adjustment Facility (SAF), which was established in 1986 in response to U.S. proposals to assist the low-income countries adopt growth-oriented reforms. The ESAF is expected to provide new resources totaling $8 billion to low-income countries engaged in economic and structural adjustment. These resources will supplement the roughly $2.5 billion remaining to be disbursed under the SAF.

The ESAF is catalyzing significant additional resources for the low-income countries through its association with the Policy Framework Paper (PFP) process, a unique and historic step forward in strengthening collaboration between the Fund and World Bank. Under this process, the two institutions work in a mutually constructive manner in helping resolve the special problems in the poorest of the developing countries. Member countries eligible to use the SAF and ESAF develop a medium-term PFP -- a joint document of the Fund and Bank -- outlining their structural and macroeconomic reform efforts and containing an assessment of their financing needs, including possible IMF and World Bank financing. The Fund and Bank are now conducting joint staff missions to prepare the PFPs.

The World Bank agreed to earmark $3 to 3.5 billion of the Eighth Replenishment of the International Development Association (IDA) for adjustment programs related to PFPs. Substantial donor support is also being catalyzed through co-financing, in particular for Sub-Saharan Africa under the Bank's Special Program of Assistance. Furthermore, at the Toronto Summit, the Heads of State or Government agreed to ease the debt servicing burdens of the poorest countries undertaking internationally supported adjustment programs. The mechanisms to address these debt service burdens have been developed by the Paris Club, the institution responsible for rescheduling debt owed to official creditors, and are working smoothly.

The United States is the only major industrial country that has not yet contributed to the ESAF. The IMF is the central monetary pillar of U.S. international economic policy and a key policy instrument to advance our economic and security interests. A modest contribution to the ESAF would go far to maintain our credibility in the IMF and provide the United States with a voice on issues of central importance to our national interests and the well-being of the world economy. It would help many of the low-income countries to adopt necessary growth-oriented reforms. Many of these countries, including Pakistan, Bolivia, Zaire, and other key nations in Sub-Saharan Africa are of significant strategic importance to the United States.

Countries contributing to the ESAF are expected to provide loans of about $8 billion. The United States is one of the very few major member countries not providing loans. We have consistently indicated that we could not provide loans due to budget constraints, and we are not now proposing any U.S. loans to the ESAF. The necessary size of such loans would, in my view, be prohibitive.

We should, however, contribute modestly to an account which will help subsidize ESAF loans to developing countries. The proposal before you is to make a $150 million contribution to an Interest Subsidy Account of the ESAF which would make its loans concessional. It is critical that loans from the ESAF be provided on realistic terms to these low-income countries.

Budget authorization and appropriation of the full U.S. contribution is being sought in FY 1990 to provide the IMF with adequate assurance that resources will be available to finance the interest subsidy. However, actual disbursements from the U.S. contribution would occur over the period through U.S. FY 2001, roughly the final date for interest payments on ESAF loans. Consequently, actual budget outlays each year will be small and would not exceed $3 million in FY 1990, with the bulk of the outlays occurring in the latter part of the 12-year period.

Such a contribution would be particularly cost-effective. The U.S. contribution represents only one and one-half percent of the total resources being provided to the facility, in comparison with our IMF quota share of some 20 percent. Moreover, the amount of resources the ESAF can bring to bear in the poorest countries often far exceeds the amount that can be mobilized through our bilateral assistance.

For these reasons, Mr. Chairman, I urge you to support enactment of legislation providing for a contribution by the

United States of $150 million to the Interest Subsidy Account of the IMF's Enhanced Structural Adjustment Facility.

INTERNATIONAL FINANCE CORPORATION (IFC)

As I mentioned earlier, U.S. support for the IFC has come under question as a result of major shortfalls in our planned purchases of shares. In 1985, we agreed to a capital increase of $650 million for the IFC but have been able to pay for only 34 percent of our allotted 175,162 shares (at $1,000 each). We are at a critical juncture, wherein we must pay our capital arrears to allow the IFC to pursue a number of private sector development activities. Otherwise, we risk a serious weakening of the institution's financial well-being and a loss of U.S. leadership in the institution.

The IFC is the arm of the World Bank that makes equity investments in and loans to private sector enterprises in the developing world. It operates without government guarantee -- thus reducing the role of governments in developing economies. More significantly, equity investment by the IFC, in tandem with its lending, allows enterprises to grow without increasing their indebtedness. It has been an important catalyst of investment funds, most recently attracting $7.50 from other sources of capital for every $1 it lends and invests.

The IFC also plays an important role in advising governments about how to improve the environment for investment in their countries. It has contributed to the development of capital markets through advice and investments. This work allows countries to generate financing from institutional and individual investors, both foreign and domestic, without the intermediation of commercial banks.

I would like to describe for you some of the most important initiatives under way at the IFC -- programs that require U.S. financial support for the institution to be carried out in full over time.

Sub-Saharan Africa

As part of an overall plan to increase IFC's involvement in Sub-Saharan Africa, the IFC has undertaken or participated in three related programs: the African Project Development Facility, the African Management Services Company, and the Africa Enterprise Fund.

The African Project Development Facility was established two years ago by the IFC with the African Development Bank and the UNDP. Teams based in Abidjan and Nairobi provide advice to companies planning investments and help them raise finance. Their work is complemented by the African Management Services Company (AMSC), which trains the personnel necessary to manage companies. The IFC invested in the AMSC in 1988, as a logical extension of its work in Sub-Saharan Africa. The AMSC provides management training for new ventures, existing private companies, and parastatals undergoing privatization. The AMSC also provides back-up in areas such as marketing, product development, and improved productivity.

The IFC has rounded out its role in Sub-Saharan Africa with the establishment of the Africa Enterprise Fund (AEF) to promote IFC investment in small and medium-sized enterprises. A large number of IFC professionals have been sent into the field with authority to take decisions autonomously on much smaller investments than those IFC normally makes. Despite their small size -- ranging from $100,000 to $750,000 -- these investments are subjected to the same standards of analysis applied to larger investments. This extremely labor-intensive program meets the financing needs of small African entrepreneurs who would never be able to attract IFC investments without this type of outreach. As the profits on this activity are much lower than those from larger investments, the IFC's ability to continue the program will be limited if U.S. funding shortfalls are not paid.

Private Sector Development

Among other efforts to support development of the private sector, the IFC pursues three main activities in capital markets development: advising in the establishment and/or strengthening of capital markets; investing or lending to domestic capital market institutions in need of support; and improving the access of companies and financial institutions to the global financial markets.

We expect these efforts to pay substantial dividends over the coming years. The most important effect will be lowering the need for borrowing to finance investment. Other positive effects will be liberalization of financial systems, opening of companies to public control, and reduction of the role of governments in capital investment.

The IFC's Corporate Finance unit has pursued corporate restructurings through a three-phase approach. It conducts an intensive review of a company's finances and operations, followed by the use of various techniques to achieve the optimum use of the firm's internal resources. Companies may engage in debt buy-backs, debt-equity conversions, or debt swaps and/or exchanges. Finally, the IFC, the company, and its creditors negotiate an agreement on the restructuring, which usually involves an investment by the IFC. These negotiations are settled on a case-by-case basis, using a market-oriented approach.

Since 1985, the IFC has participated in about 50 corporate restructurings, one half of which have been in Latin America and the Caribbean. This type of fee-generating service is increasingly provided by the IFC in its role as an "investment bank for development." While this service is self-financing, it does not generate the kind of profits that the IFC needs to finance its growing investments.

INTER-AMERICAN DEVELOPMENT BANK (IDB)

As you are aware, Mr. Chairman, member countries of the Inter-American Development Bank (IDB) have agreed to increase the Bank's capital and replenish the resources of the concessional window, the Fund for Special Operations (FSO). Final agreement was reached during the Bank's annual meeting in March. It calls for a $26.5 billion capital increase and a $200 million replenishment of the FSO. The annual U.S. share of the subscriptions to paid-in capital and contributions to the FSO would be $77.9 million.

The agreement is a good and fair one that reflects the needs and desires of both the donor and borrowing member countries. The result will be a strengthened IDB that can more effectively support the growth and development of Latin America and the Caribbean. Under the agreement and with the organizational and procedural reforms that are already under way in the Bank, the IDB will:

- lend $22.5 billion over the 1990 - 1993 period;

- continue to seek ways to ensure that half of its lending program benefits lower income groups;
- provide up to $5.6 billion of fast-disbursing, policy-based sector lending;
- strengthen the country programming process to ensure that all its lending will support policy reform and self-sustaining growth;
- adopt a loan approval mechanism that allows greater weight to be given to the views of donor countries; and
- reorganize operating departments to implement sector lending and country programming, and to improve the overall efficiency of Bank operations. This will include enhancing its environmental analysis by establishing an environmental line unit.

With the replenishment now agreed and the organizational and procedural reforms being implemented, the Bank will also be able to make its contribution to helping resolve Latin America's debt problems. That contribution will encourage borrowers to adopt policies that improve economic performance, stimulate new foreign investment, increase domestic savings, and encourage the repatriation of flight capital. Private sector initiatives and the development of market-based economies should be emphasized. It will be critical, therefore, that the United States meet its funding obligations to the IDB -- both ongoing replenishments and arrears -- in order for this process to be implemented fully.

CONCLUSION

In conclusion, Mr. Chairman, I want to emphasize the Administration's commitment to, and full support for, the MDBs and U.S. participation in the IMF Enhanced Structural Adjustment Facility. These institutions are vital to our efforts to strengthen the international debt strategy. It is critical that we provide full funding for U.S. participation in order to maintain U.S. leadership on debt issues, and to ensure that the strengthened strategy is implemented.

These institutions also serve the United States in a variety of other ways. We rely on the MDBs to promote policies which protect the delicate global environment that we all share. We depend on them to promote our security and humanitarian interests.

Furthermore, the fate of MDB activities is important to the U.S. economy, since success in promoting sustainable growth will increase effective demand among developing countries for U.S. exports and reduce the strains on the international financial system. I also believe that successful operation of overall MDB programs will make one additional contribution: the promotion of peace and democracy among nations. I cannot overemphasize the importance I attach to this.

I recognize fully that, even in the best of circumstances, supporting foreign assistance is never popular. Now, at a time of severe budget constraint, it will be even more difficult. It is imperative that we support these institutions in their important tasks, not only by participating actively in new MDB replenishments, but also by honoring past-due financial commitments to them.

ANNEX

Fiscal Year 1990 Budget Request

We are requesting $1.6 billion for the MDBs and $150 million for the IMF's Enhanced Structural Adjustment Facility (ESAF) in FY 1990. These funding requests reflect both the need for budgetary restraint and the financial requirements for effective development programs. Our MDB request is comprised of MDB funding requirements currently due for payment, $1.3 billion, and $314 million of the $414 million in U.S. funding shortfalls to the MDBs. The stringency of the budget constraint on international affairs funding prevents the Administration from requesting the entirety of U.S. funding shortfalls on earlier scheduled MDB payments. These requests are composed exclusively of funding commitments negotiated by the Administration in close consultation with this Committee.

International Bank for Reconstruction and Development (IBRD)

For the IBRD (also known as the World Bank) in fiscal year 1989, the Administration is requesting: 1) $20.1 million in budget authority to complete the first installment to the 1988 GCI; and 2) $70.1 million in budget authority and $2,241.8 million under program limitations for subscription for the second installment.

The Bank's principal role today is making long-term credit available for productive projects, which will lead to economic and social development in its less developed members. These loans carry market interest rates. In addition to project finance, the IBRD provides policy advice and technical assistance and financing in support of structural reform, and serves as a financial catalyst and institution builder.

International Development Association (IDA)

For fiscal year 1990, the Administration is requesting: 1) $6.7 million to complete the second installment, and 2) $958.3 for the third and final installment for the $2,875 million U.S. share of IDA-8. IDA, an affiliate of the World Bank, is the single largest source of multilateral development assistance for lending on concessional repayment terms to the world's poorest countries. Over 96 percent of IDA lending goes to countries with an annual per capita income of $400 or less.

International Finance Corporation (IFC)

For fiscal year 1990, the Administration is requesting: 1) $79.9 million to fund the U.S. shortfalls in its subscription to the $650 million IFC capital increase; and 2) $35.0 million for the fifth and final installment. The IFC provides risk capital as well as long-term loans; plays an important role as a catalyst in attracting private capital; and provides technical assistance to developing countries that want to encourage domestic and foreign private investment.

Inter-American Development Bank (IDB)

For fiscal year 1990, the Administration is requesting $31.6 million in budget authority to complete the U.S. commitment to the sixth IDB capital increase.

Fund for Special Operations (FSO)

For fiscal year 1990, the Administration is requesting $63.7 million in budget authority to complete the U.S.

commitment to the sixth increase in FSO resources. These funds are required for the 1989 FSO lending program.

Inter-American Investment Corporation (IIC)

For fiscal year 1990, the Administration is requesting $25.5 million in U.S. funding shortfalls to the IIC. These funds, for the third and fourth of four installments to the IIC, would complete the U.S. commitment to this institution. The IIC is linked to the IDB, and is designed to support private sector activities in Latin America through equity and loan investments that focus primarily on small- and medium-scale enterprises.

Asian Development Bank (ADB)

The ADB is currently making lending commitments on the basis of capital stock that is fully subscribed by Bank member countries, including the United States. Hence, there is no need to request funding for the ADB in fiscal year 1990. The Bank makes loans at market rates to developing member countries in regions of key importance to U.S. strategic and economic interests.

Asian Development Fund (ADF)

For fiscal year 1990, the Administration is requesting: 1) $84.6 million in U.S. funding shortfalls to the first and second installments to the fourth replenishment of ADF resources; and 2) $146.1 million for the third, regularly scheduled installment. The stringent budget constraint on funding for international affairs prevents us from requesting the remaining funding shortfall of $100 million to the ADF until FY 1991. However, because of exchange rate changes and lower-than-expected lending levels, it is expected that the total $230.7 million requested will be sufficient to complete its project lending programs in calendar year 1989.

The ADF is a source of concessional finance to the poorest member countries of the ADB. Pakistan, Bangladesh, Sri Lanka, and Nepal are the major borrowers from the Fund.

African Development Bank (AFDB)

For fiscal year 1990, the Administration is requesting: 1) $1.6 million in budget authority to subscribe to paid-in capital to complete the second of five installments to increase the Bank's capital base; and 2) $9.0 million in budget authority and $134.8 million under program limitations for the third U.S. installment. The Bank makes loans on market terms for the economic and social development of fifty African member countries, individually and through regional cooperation. The AFDB is an important part of the U.S. commitment to work with the countries of Africa for the achievement of their long-term development objectives.

African Development Fund (AFDF)

For fiscal year 1990, the Administration is seeking $105 million in budget authority for the second of three installments of the U.S. contribution to the fifth replenishment of AFDF resources. The Fund complements AFDB operations by providing concessional financing for high priority development projects in the poorest African countries. The United States has a strong humanitarian interest in aiding the poorest countries of the world's least developed continent through its support for the AFDF.

IMF Enhanced Structural Adjustment Facility (ESAF)

For fiscal year 1990, the Administration is requesting $150 million in budget authority for a one-time U.S. contribution to the Interest Subsidy Account of the ESAF. The ESAF provides financial assistance on concessional terms to the poorest countries experiencing protracted balance of payments problems.

DEBT STRATEGY

Senator LEAHY. Secretary Brady, let me ask about your debt plan. The new proposal, as I said before, is encouraging to me. But I have some questions about whether it goes far enough. You mentioned, for example, things private banks could do: Debt/bond exchanges, cash buybacks, noncollateralized interest reduction instruments.

Well, just looking at it as a layperson, what incentive is there for the banks to do that voluntarily?

Secretary BRADY. Let me talk, if I may, about the whole program. This new debt strategy is a voluntary program. But what it does, Mr. Chairman, is recognize reality. And reality in this case is that the loans to Third World countries which are on the books of U.S. commercial banks are loans which sell at a discount in open-market transactions.

So this whole program takes that central thought——

Senator LEAHY. If they sell at all.

Secretary BRADY. If they sell at all. Well, there are markets for some of the countries. They are not full-fledged, flourishing markets, but there is enough of a market to get an idea of what these loans are worth, and there are quotes on most countries' loans.

So, the strengthened debt strategy takes what I describe as reality and tries to turn it into a process, whereby using the money that the Multilateral Development Banks will put up, not new money, but the same kind of money they were putting into the process before, and facilitate the taking of those loans off the banks' books and putting them back and exchanging them; and instead, a lower principal amount of the loan, therefore, a lower debt service, to give the countries a place to breathe.

It is a new process; we do not expect that it will flourish overnight. In fact, it is a lot slower than we hoped it would be. On the other hand, we should recognize that most of these transactions between countries and commercial banks take from 6 to 9 months, and we are only about 3 months into this process. So things are looking better.

Senator LEAHY. Do you see the World Bank or the IMF, for example, guaranteeing the debt remaining after some kind of a reduction plan between the commercial banks and the borrowing countries? If so, the first question that comes to my mind is what will that cost us in increased appropriations to those countries? I realize it is an entirely different thing; I do not mean to be mixing apples with oranges, but we are all sitting here totally shell-shocked as we see the bills on the S&L bailout, just because we guaranteed these 100,000 dollars' worth of deposits for individuals.

So what is this going to cost? I mean, there is no question that changes are going to be made. There is no question a lot of them could never be paid back if it was left as it presently is. There is no question that the World Bank and IMF and others are going to be bring the kind of pressure to do this, but what do we pay for cost?

MULTILATERAL DEVELOPMENT INSTITUTIONS AND THE DEBT STRATEGY

Secretary **Brady**. Chairman Leahy, I do not want to give a long answer to every question you ask, but I think this one deserves a little bit of an explanation.

When we were studying the Third World debt problem this fall at the Treasury, what I asked to have done was to go back and have a full study made of the architecture of the problem. And by that, I meant where was the money going in and out and who was putting it up.

What we found out was that, over the last 2 or 3 years, the multilateral banks had put up some $20 billion to $30 billion of the total amount of money that was going into maintaining the orderly way of doing business in the Third World. And at the same time, the banks had held about even.

So what we said was that as long as this money was going in—this $20 billion to $30 billion over the last 2 or 3 years that had been put in by the multilateral institutions—was it being put in in a sensible way? Was this the most effective and efficient way to use it?

We thought about this problem while we were having negotiations on a bridge loan with one of the major debtor countries who came in. We spent 2 to 3 weeks—night and day and weekends—working on the negotiations. And when we got through negotiating with this country, which had come in with some 55 billion dollars' worth of debt to the banks and multilateral organizations, we very proudly announced that we had come to a conclusion. In the end, we had added to a stock of debt that was already too big, another $1.5 billion. And we said to ourselves if they had too much debt when they came in here, have we solved anything by patching the situation up, sending them home, albeit with great acclaim in the front pages of all the major papers? We had completed transactions, we had diverted disaster, we had sent this country home. But we had sent them home owing $1.5 billion more than when they came in.

We said to ourselves, now, is this progress or are we just making the problem bigger for the future? It seemed to us that going back to the fact that we had found out that there was money going in from the Multilateral Development Banks, that what we should do is try to use that money in a way that did not add to the stock of debt, but which would reduce it. So we took this money that had been going into the program, and redirected it to debt reduction. So, at least in the initial instance of this program, I do not think there is going to be any increase in what the multilateral institutions put into it. If it is, it is going to be really small.

Senator **Leahy**. The commercial banks are going to have to be pressured to go along with some of this. Do you envision new banking legislation to pressure them to do that?

Secretary **Brady**. I am hoping that what will happen, Mr. Chairman, is that commercial banks will accept their role. Again, I hate to use oversimplifications for problems, but this program that we have put forward is a program based on reality. These loans are not worth their book value, and the commercial bankers understand that.

I think that this is a complicated process. It is not possible to achieve debt reduction overnight. So I think we are making some progress, but it is very important to me that the banks do step up to the plate and take advantage of this moment of reality that we have, with the assistance of the Multilateral Development Banks, to try and get the job done.

IMPORTANT TO PAY U.S. ARREARS TO MDB'S

Senator **Leahy**. I have some other questions. But for the sake of time I will submit them for the record. You have asked for $300 million to pay arrearages to the Multilateral Development Banks. We have a whole lot of expensive new initiatives in the President's request for Foreign Operations. This $300 million is just one. I want to know what priority this initiative has. The reason I ask this is if we took all the things that the administration has asked for, it is far more money than we have in the whole account for Foreign Operations.

Under Graham-Rudman-Hollings we are now back to zero-sum gain. We are not going to get big increases in revenues. If we are going to add a new program, then we have to cut something else. I realize one can say that arrearages are not a new program. The fact is, however, it adds $300 million to our budget request this year.

How big a priority is it? How does it compare, for example, to the multilateral assistance initiative for the Philippines? If you place one against the other, one is going to get wiped out, or the $328 million increase the administration wants for military aid, or the $150 million you have requested for the IMF.

I do not say this just in the abstract. We actually could be, within this committee, playing one against the other because we do not have the money to fund all of them. Who goes over the side first?

Mr. **Brady**. I appreciate the problem, but I want to emphasize that the program that I have outlined in my oral statement and more completely in the full statement is one that we feel very, very strongly about, Mr. Chairman.

We have a lot of things we want to get done. We want to get things done on the environment. We want to get the debt strategy done. We have foreign policy considerations which are embedded right in the middle of our obligations to the Multilateral Development Banks. We have relationships with the G–7 where we are questioned very hard as to why the most powerful and richest country in the world cannot live up to its obligations. I guess I am stung a little bit by that.

I really do feel that we are getting a big bang for our buck. It makes absolutely good sense for this country to put up its share of multilateral obligations and make sure it is up to date, and to be in the center of trying to influence those organizations for our own national interest.

If you will excuse me, I am not going to volunteer for reduction.

Senator **Leahy**. I am not suggesting you do because I happen to agree with very much of what you say. The point is there is only so much money. The administration cannot have it both ways. They cannot say, "Gee, we want all these programs." You cannot ask for considerably more and then say why can't Congress balance the budget.

If we passed everything that the President has requested, we would have even a greater deficit than we are planning. They may all be good things but it is like you and I agreeing with the President this morning when he talked about cutting out plea bargaining. As a former prosecutor I am all in favor of that. Yet, you cannot do it unless you have more courts, more prosecutors, more of everything within the criminal justice system, all of which costs an enormous amount of money.

I have taken up everybody else's time and I will stop here. When you mention, for example, protecting the environment, Senator Kasten is the leader in trying to get the Multilateral Development Banks to do something about environmentally harmful loans.

WORLD BANK EMPLOYEE COMPENSATION

Senator **Kasten**. Mr. Chairman, thank you. I want to talk, Mr. Secretary, about two different things and then put the remainder of my questions in the record.

I want to talk, first of all, about the salary increases at the World Bank. I, then, want to discuss some of the environmental questions, and most specifically the debt-for-nature swaps that we are working toward.

You spent a lot of time talking abut how important it is that we pay up our arrearages and fund the Multilateral Development Banks. At the same time we have before us a proposal that is characterized by the World Bank as an 11-percent salary increase.

That in itself, an 11-percent salary increase, is almost unbelievable to me. If you look into it more closely, though it is not just an 11-percent salary increase. It is a range of 4 up to 17.5 percent. If you look even more closely, there are a significant number of people, over 300, that are going to get a salary increase above 17.5 percent.

The Bank has published a very slick book. I do not know if you have seen it or not, but it is a thick, glossy book. It looks kind of like an annual report. Here it is. It is printed in technicolor, with all the gimmicks. I do not know how many hundreds or thousands have been published. Just the cost of this book alone is questionable. You cannot extract one fact out of this book. It is all sorts of different kinds of comparisons.

If we recognize that these salaries are not taxable, we have a major problem here. It seems to me that someone who supports Multilateral Development Banks as we have done on this committee, will find this salary increase to be a great embarrassment.

I think it is simply impossible for us in Congress to agree to this kind of a salary increase. I said before non-U.S. citizens do not pay U.S. income taxes. Therefore, someone who makes the maximum salary at the bank of $103,670 at level 29 for example, and my figures are 2 years old, makes a taxable gross equivalent of $152,840.

At one time, U.S. citizens were provided additional funds to pay for their taxes. Do we still provide U.S. employees additional funds to pay for their taxes at the World Bank?

Mr. **Brady**. The World Bank and IMF do.

Mr. **Dallara**. Senator, on this point the U.S. Treasury does not provide those particular funds, but the World Bank and IMF do provide additional moneys.

Senator **Kasten**. So the effect is that both non-U.S. citizens' and U.S. citizens' salaries are tax free?

Mr. **Dallara**. That is correct, Senator.

Senator **Kasten**. And a significant number of people, over 300 people, are getting more than 17.5 percent.

U.S. OPPOSITION TO WORLD BANK SALARY INCREASE

Mr. Secretary, first of all, what did the U.S. Government do to try to prevent this pay raise from taking effect? Second, did you suggest during debate that the United States might take action against the World Bank if the pay raise went into effect?

Mr. **Brady**. With regard to the first part of the question, Senator Kasten, we strongly oppose the change in the World Bank and the IMF compensation system. We worked on a committee for 4 years to reform the compensation system. The committee's recommendations were rejected by the executive boards and management, even after our repeated request for a more reasoned approach.

I sent letters to finance ministers, to Messrs. Conable and Camdessus. We held meetings with the boards, brought up the issue at deputy's meetings at the under secretary level, but, frankly, the rest of the world did not support our position.

I cannot emphasize how strong the objections were from these organizations with the vehemence of our opposition to the increases. At some point in time after 4 years, an issue has to come to a head. This issue did come to a head. We were outvoted, and the result that you have alluded to is what happened.

With regard to your question about raising what we might do, I do not want to use the word threat because I know that is not what you mean. We felt that by stating strongly how wrong we thought the increases were that we could make our point.

Frankly, to suggest that we were not going to go forward with our request for the funds for these organizations—that do a great job for the United States as a whole—is counter to my approach which is to try and stay in there as best we can and get policies which benefit the United States, and not retreat from the process.

Senator **Kasten**. You know, because you were on the floor of the Senate during more than one of those kinds of debates. The votes are close, roughly 45–55 in support of the multilateral development banks even for reasonable capital increases.

It seems to me that this salary increase is going to make it impossible for us to go to the floor and engender support for some of the initiatives you've brought here today.

Frankly, I think they are going to be lucky if they get away with what they have right now. I think it is very possible that because of this action, the multilateral development banks will become the offset for a number of other kinds of programs, even outside the 150 account. I have a number of other questions——

Mr. **Brady**. Senator, can I interject? I think they were very short-sighted in going forward with this program. And all I can tell you is that we fought until we were out of breath and we fought for 4 years. We made our point; we stood before the forum and told them that we thought it was wrong and we got out-voted.

Senator **Kasten**. I have a number of other questions I would like to submit for the record because, frankly, it is hard to figure out exactly who gets the increases. We have done a lot of work on it just to get this far, but I am going to submit a number of questions. I will also ask you a little bit about this book.

DEBT-FOR-NATURE SWAPS

I have one other series of questions that I would like to talk about with regard to debt-for-nature. Legislation has been passed and enacted into law requiring the Treasury to promote debt-for-nature swaps in the public international financial institutions. That was included as part of last year's appropriations bill.

In your Brady plan, there has been no action and there is no mention of the debt-for-nature swaps. Where are we in terms of trying to work toward debt for nature swaps? What kind of specific provisions do you need from us in order to put a greater emphasis on this whole area? The World Bank has pledged $10 million to finance debt reduction programs and we in this committee have been interested in trying to work with them.

As a matter of fact, there is the possibility that Barber Conable and people at the World Bank will become the coordinator for these debt-for-nature swaps. So, both for the World Bank and in the overall debt program, how do you view the debt-for-nature provisions?

Mr. **Brady**. We have been a very strong supporter of debt-for-nature swaps and I will ask Charles Dallara, who has been working with the World Bank and the IMF on this matter, to answer you in more detail.

Further, we have met with a number of the environmental organizations that are working on this matter, have aided their understanding of how these programs might be carried out, and it is a very strong part of the Treasury's program. I will ask Charles to fill you in on some of the details.

Mr. **Dallara**. Briefly, if I may add, Senator, to what the Secretary has said, we have been very supportive and have expressed our support for debt-for-nature swaps in a variety of different fora, in a variety of different discussions.

As you are aware, we have been working with your staff and other staff in the Congress to enable legislation to go forward which could further facilitate and support debt-for-nature swaps in a way which we believe would also enable the debt strategy to go forward.

In particular, we have been exploring the possibility of environmental policy loans from the World Bank containing a portion of funding which could be used for debt-for-nature swaps. This is an idea that we will be exploring further with World Bank management in the period ahead and will be raising in connection with discussions of IDA lending, the soft-loan window of the World Bank.

Senator KASTEN. Well, I am concerned because both in the discussions and in what we have read about the Brady plan, there is no specific mention of debt-for-nature swaps and in what we have read and learned about the World Bank effort, there is also no mention of the debt-for-nature swaps. I want to emphasize to you, Mr. Secretary, this is something that we view as a very important and unique opportunity. I am hopeful that we will take advantage of it.

The next meeting of the G–7 will occur in July. Several European nations have indicated interest either in debt relief or in promoting resource conservation. The French, for example, have pledged to forgive much of the debt owed by African nations, but this proposal makes no mention of debt-for-nature or other conservation initiatives.

What initiatives will the United States take to raise the issue of resource protection at the G–7 meeting next month? I am particularly interested in any linkage between debt reduction and debt forgiveness.

Mr. BRADY. Let me say, first of all, Senator Kasten, that there is no written-down plan connected with the so-called Brady plan. This initiative is a series of ideas and principles which is evolving into a program of action that can be written down in detail. So your inquiry is very timely.

There is no reason at all why we cannot embody debt-for-nature swaps in a description of how this plan might work, reference to the work that we are doing on a daily basis in the Treasury on this matter. But there is no written-down version of the plan at this time, because what we are trying to do is get everybody's ideas and put them to work in this process.

With regard to the G–7, I can tell you that there is discussion at the G–7 level; I cannot remember precisely whether there is mention of debt-for-nature swaps in the last communique, but I made a statement at the most recent meeting of the international organizations before the development committee, a rather long outline of how we thought the environment should be treated. And if I may, I will send you a copy of that statement for the record.

[The information follows:]

REMARKS BY SECRETARY OF THE TREASURY, NICHOLAS F. BRADY, AT THE MORNING SESSION OF THE DEVELOPMENT COMMITTEE OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK

I am pleased to participate once again in the Development Committee, which plays an important role in providing guidance on growth and structural reform issues, and on the World Bank's role in the international debt strategy. I would like to touch on these key issues this morning, while concentrating on further steps to strengthen the debt strategy, particularly within the World Bank.

As the Ministers and Governors are aware, we believe that considerable progress has been made in addressing debt problems during the past several years. The principles which have guided us in the past—the importance of stronger growth, debtor reforms, external financial support, and a case-by-case approach to individual debtors' problems—remain valid. However, it is clear that new directions for our strategy are now needed.

These should include:

On the part of debtor nations, a new emphasis on measures to encourage investment and the return of flight capital;

On the part of commercial banks, stronger emphasis on debt and debt service reduction to complement new lending; and

On the part of the key international financial institutions, a change in their policies to provide greater encouragement to debt and debt service reduction along with other non-debt private financial flows.

We have proposed that the World Bank, along with the Fund, set aside a portion of policy-based loans to support transactions involving significant debt reduction which have been negotiated with commercial banks. Such set-aside funds could be used to collateralize discounted debt-for-bond exchanges, or to replenish foreign exchange reserves following a cash buyback.

In addition, we believe that both institutions should make available limited interest support for transactions involving significant debt or debt service reduction. Such support could be structured to safeguard the financial position of the Bank and could be made available on a rolling basis for a limited period of time. We recognize that the interest support proposal involves a number of technical issues for the Bank which require careful consideration. However, we believe it is essential to establish both support mechanisms in order to provide adequate impetus to market activity beneficial to both debtors and creditors alike.

The balance of new lending, debt and debt service reduction will vary from country to country, and will need to be worked out in negotiations between debtor nations and commercial banks. A waiver of the legal constraints in existing commercial bank loan agreements would also be important.

To complement these changes in the Bank's financial policies, there is a need to strengthen the effectiveness of its structural adjustment lending programs. In particular, we believe the Bank should adopt procedures which assure closer monitoring of performance under these loans, including Board approval for release of individual tranche disbursements.

In addition, the Bank should place increased emphasis in its structural adjustment and sector loans on measures to promote foreign direct investment. We are encouraged that MIGA will be moving ahead with its first guarantees in the next few months. The IFC also has a continuing role to play in attracting foreign investment. Moreover, debtor governments should implement sound debt/equity swap programs—including, where feasible, opportunities for participation by their own citizens as a stimulus to the return of flight capital.

Finally, I would note that environmental reform deserves stronger attention. I would encourage the Bank to establish its own internal environmental impact assessment procedures, and to develop procedures for providing information about environmental aspects of individual loans to non-governmental organizations and community groups. These organizations can provide useful input to the Bank's appraisal of specific projects. I also strongly support the position of my Canadian colleague, Finance Minister Wilson, on increasing public access to environmental information and ask that we have a full and detailed report on where we stand on all of these issues at our September meeting.

Before concluding, I want to refer to another important development in the debt strategy. This is the recent agreement to increase the resources of the Inter-American Development Bank through a major capital replenishment. The IDB can play a role in supporting policy reform in Latin America and the Caribbean through additional financial support for both project and policy-based lending. We welcome the fact that the IDB can now move ahead in this area.

In concluding, I would like to underscore the importance of prompt action by the Bank as well as the Fund in putting into place the mechanisms that can lay the basis for further progress in the debt strategy.

Senator KASTEN. Mr. Secretary, my time has expired and I look forward to working with you on these issues. I think we have some great opportunities. I appreciate Secretary Baker's help and enthusiastic support of our efforts and now, your help and support. We are making a real difference and I look forward to working with you further. Thank you, Mr. Chairman.

Senator LEAHY. Thank you. Senator Lautenberg, we have been touching on a number of issues and I know you have had a great deal of interest in not only the world financing but the environmental ones. I am glad you could join us here today. The floor is yours.

MDB'S AND THE ENVIRONMENT

Senator **Lautenberg**. Thank you very much, Mr. Chairman. I was pleased to hear the Secretary's comments and to read in the text, the full text of his remarks, the focus on the environment and the need for all of us to work together. President Bush has put himself on the right side of the environment in many opportunities, particularly this week with the release of this administration's program to amend the Clean Air Act. We may differ at a point or two on exactly how it happens, but the direction is right and I respect and appreciate that.

Therefore, Mr. Secretary, as I look at your remarks, while I see the number of times that we have encouraged, cautioned, communicated with the MDB's, including World Bank, our environmental interests, I do not see anything that indicates that they have responded in a positive way or in any form that tells us that progress, specifically related to improving the quality of the environment, is being made at a pace that we would like to.

You know that Senator Symms and I have a bill to amend NEPA to have the United States develop environmental assessment guidelines for MDB projects. I would like to ask you concerning a letter that you wrote to Mr. Conable, March 1, 1989, concerning releasing environmental information on World Bank-proposed projects, whether you have had a response, and, if so, what was the response?

Mr. **Brady**. I am glad you referred to that letter; it was a rather precise letter and it went out earlier this year and I do not recall the details at this moment, so maybe Charles Dallara can outline what the response has been.

Mr. **Dallara**. Thank you, Mr. Secretary. It is my understanding, Senator, that the bank has been working since receipt of that letter, some 3 to 4 months ago, on developing new policies and practices concerning information and the provision of that information to the public on the environmental impact of bank loans.

We have continued to press this issue since the letter was delivered on behalf of Secretary Baker and Secretary Brady, to President Conable, and we are hopeful that the result of this letter and this pressure will be a more responsive, more widely available set of information on this issue.

Senator **Lautenberg**. The turn-around time on that is awfully long; it is 3½ months. And it is fair to say that the Treasury—under Secretary Brady and under Secretary Baker—before that has focused on the environment and no matter how much cajoling or how much encouragement we seem to give, their response is "the check is in the mail," to use that expression. It is not satisfactory, I am sure, to you and certainly not to me.

Mr. **Brady**. Senator, I would say we have had one effect, which is the MDB's have increased environmental staff and training and reached out to nongovernmental organizations. So I think the process is beginning, but I cannot argue with the fact that 3 to 4 months is a long time.

Senator **Lautenberg**. If they continue, the MDB's, to be less responsive that we would like and the Treasury Department is forced to take some unilateral action on project information, what type of documents do you have available to you that talks about the progress there and would you release that information to the public?

Mr. **Dallara**. Certainly, Senator, we would be glad to share information with you on the steps that we believe have been taken by the World Bank and the other development banks, which we believe are quite significant.

We do not disagree with you at all that a long way remains ahead of us in achieving the kind of environmental standards and environmental practices in these organizations that you and we wish to achieve.

But I do think it is important to recognize that in the last year or two, we have seen the establishment of environmental assessment units, the improvement in analysis of the environmental impact of project lending, as well as the development of environmental policy loans so that, when the World Bank moves into a particular sector in a developing country, this is done within the framework of an overall environmental policy——

Senator **Lautenberg**. It is also fair to say, is it not, that the warning signs are so loud and so ominous about what is happening to our environment and we have become very conscious of the destruction of acres of rainforest and the release of toxic materials or the lack of regard for the control of these materials, that the pressure is being brought upon us from all kinds of sources.

ENVIRONMENTAL INFORMATION ON MDB LOANS

And that it is also true, I believe, that your access to information, environmental information, regarding the multilateral bank loan issue, is so limited that you have to rely on AID or the nongovernmental operations community in obtaining such information. There does not seem to be the level of awareness or concern that we all feel here.

Mr. **Brady**. Well, you could not be more right. The statistic that has struck me is an area of rainforest the size of Central Park in New York City is destroyed every day and 365 days a year; actually, it may be more frequent than that. This is the kind of thing that, obviously, has got to be combated.

I do believe we are making progress. It is not fast enough. Those countries that are recipients of these loans like to do things their own way, as you understand, Senator. It is a continuing process to try and bring the concern up to speed.

I do think we are getting to a point, however, where we are going to have enough information so that we can begin to understand what is going on.

Senator **Lautenberg**. What do you think it would take to get the MDB's to provide the environmental information that they might have on pending bank loans?

Mr. **Dallara**. Senator, we do believe that the effort we have under way now, supported not only by you and many other leaders in the Senate and in the House, is an effort that is increasingly supported by other industrial countries. We believe that effort will produce an improvement in the environmental information. We see clear progress and we will continue to push ahead.

The information that we have available to us now at the Treasury Department is much greater than it was only 18 or 24 months ago. And we have had collaboration, actually, on individual projects where we have gone back to say, "This is not enough information" or "We are concerned about the impact here." And we have gotten cooperation that, perhaps, just a year or two ago we would not have gotten.

Senator LAUTENBERG. Let me ask you this. Based on the information that you have accumulated, is there any doubt in your mind that there have been loans made that support projects that have an adverse environmental impact as a consequence of those projects being funded?

Mr. DALLARA. I would not have any doubt about that.

Senator LAUTENBERG. What should we do for the United States to base its support for projects for which adequate environmental information has not been developed and released? What can you do to influence the decision or at least the consideration of the point of view that we hold?

Mr. BRADY. In these organizatons, as I am sure you are aware, Senator Lautenberg, most of the loan applications come up before the board of directors, and our executive director at the World Bank questions each loan with regard to its environmental impact.

One of the problems you put your finger on is that we do not have enough information sometimes. Therefore, we feel at this point that the vital program is the development of sufficient information so that we can bring enough attention to this problem with facts and figures so that we get some bite into it.

Our environmental concern on this problem is not shared by every other nation in the world, and what we are trying to do is to get more sunlight on this issue. Your efforts and your colleagues' efforts are all important. I think that is what we can do and that is what we are doing.

Senator LAUTENBERG. I thank you very much, Mr. Secretary. I know that your interests and mine are common regarding the environment. We understand what happens as we watch it degrade, and we are obliged, I think, as leaders in the democratic world, to make sure that our views and our intent is supported by actions that we can take. I thank you very much. Thank you, Mr. Chairman.

Senator LEAHY. Thank you very much. Senator Nickles.

MDB LENDING FOR SURPLUS COMMODITIES

Senator NICKLES. Thank you very much. Mr. Secretary, I would follow up on a couple of questions, one by Senator Lautenberg. I would agree with his assessment.

We want to do everything we can from the multilateral development banks to make sure that loans are not being made that are environmentally unsound, and we also want to do everything we can do to see that multilateral development banks do not make loans that compete with U.S. producers, whether it be in commodities, commodities that we have in surplus or commodities such as coal.

There is a large loan that was made in South America that was a low-interest loan that subsidized coal production, which I just find to be absurd that we would be helping to finance that. Same thing with loans that are being made to produce soybeans and wheat and other commodities that we are having a difficult time, year in and year out, exporting.

APPROPRIATION REQUEST FOR WORLD BANK

Mr. Secretary, concerning the World Bank, just a couple of comments. I guess, in your appropriation request, you have asked for $90 million. Last year, we appropriated $50 million, $20 million, what, less than the amount requested for the general capital increase.

Mr. **Dallara**. The paid-in capital appropriations, Senator. It was $70 million out of $90 million, I believe.

Senator **Nickles**. And so you are trying to catch up by going to $90 million, is that correct?

Mr. **Brady**. No; our allocation was $90 million. I believe we got a commitment for $70 million, so we are $20 million behind on that commitment.

Senator **Nickles**. So you would catch up for what was not done last year.

Mr. **Brady**. That is correct.

WORLD BANK EMPLOYEE STATISTICS

Senator **Nickles**. Well, a couple of comments concerning the World Bank. One is in its management. Last year, there was a—I think it was last year or the year before, there was an extremely generous provision for employees for early retirement that many of us complained about but I believe went forward.

Senator Kasten pointed out the salary structure. I have a copy of the salary structure schedule and I see grade 29, that there is a maximum of $134,000 salary and grade 28 is $122,000. Would you provide for the committee the number of employees that are at these various grades for us?

Mr. **Brady**. Certainly.

[The information follows:]

WORLD BANK EMPLOYEE STATISTICS

[As of December 31, 1988]

Grade level	Number of staff in grade	Percent of staff in grade
Higher level:		
29	17	.3
28	78	1.3
27	61	1.0
26 division chief	348	5.8
25 principal economist	368	6.1
24 staff economist	1,078	17.8
23 staff economist	825	13.7
22	308	5.1

WORLD BANK EMPLOYEE STATISTICS—Continued

[As of December 31, 1988]

Grade level	Number of staff in grade	Percent of staff in grade
21	179	3.0
20 research assistant	172	2.9
19	259	4.3
18	188	3.1
Subtotal	3,881	64.4
Support level:		
17 executive secretary	263	4.4
16	456	7.5
15 secretary	754	12.5
14	427	7.0
13	215	3.6
12	4	.1
11	29	.5
Subtotal	2,148	35.6
Grand total	6,029	100.0

Senator NICKLES. I am just trying to—looking at the equivalent of that, these are, many of these are U.S. citizens and this is tax-free income. And so, if a person had a salary at the maximum, it would be $134,000; if it was tax-free, it would be the equivalent of about, probably what, $175,000 at the 33 percent marginal bracket? So I would be interested in that.

The point I am making, Mr. Secretary, is some of us complained there was, the cost of the headquarters, the most expensive building, at least at the time, in Washington, DC, was, I think, estimated at $221 million. That seems to be extravagant. These salaries being tax free, and with the salary rate increase proposal, seems to be extravagant. The amount of lump sum pay-outs for early withdrawal, early retirement, seems to me to be extravagant.

So I share those concerns with you. And, yes, you are trying to catch up and you are wanting to make, have the United States make a full commitment. Some of us may have a problem with that when we read about the most expensive office buildings, when we read about these kind of salary structures, and I would just like to convey that to you.

Mr. BRADY. Senator, let me answer that question, but I also want to correct something I said earlier. I misunderstood you. Last year's request was $70 million and we received $50 million, so this year's request is $70 million and we are $20 million behind, so that makes a total of $90 million for this particular year. If I stated that incorrectly before, that is the accurate figure.

Senator, before you came in, Senator Kasten was talking about the same issue, the salary issue, and I will be glad to repeat to you what I said to him, but——

Senator NICKLES. I heard your answer. I just wanted to make sure that you, I wanted to reemphasize that there is some concern about it. And also, it is going to be very interesting to receive the schedule, the number of employees at these various grades. If you have one or two people at the maximum grade, that is one thing; if you have a preponderance of employees that are at the top grades, that is another thing altogether.

APPROPRIATIONS REQUEST FOR THE IDB

Mr. Secretary, a couple of comments. Last year, we paid, or we had nothing in appropriations either in requests or in actual appropriations for the Inter-American Development Bank. You have requested, if I am correct, $120—yeah, $120 million, is that correct?

Mr. **Brady**. That is correct.

Senator **Nickles**. One of the reasons why, I believe, or you can correct me if I am wrong, one of the reasons why there was no money requested for the Inter-American Development Bank is because of, I am going to say, a lack of cooperation, a lack of adherence to any U.S. input, although we were the largest contributor. We are consistently out-voted.

I know your predecessor tried to make some reforms to where the United States would have a greater voice in making economic-oriented loans. Have you had any success in that? I am almost assuming, by the request for $120 million, that you have had some success, although I am not aware of it.

Mr. **Brady**. Senator Nickles, I think we have had some success. I am sorry that the discussions had to come to this kind of an impasse, because it was heavy going in terms of the severity of the discussions. But we have a different country programming process, we have a different process for reviewing of loans, and we have a different process by which loans are approved.

It is because that process was improved, from our point of view—as you point out, we have a dominant position in the IDB—it was because of that improvement that we now go back to our request for this year.

Senator **Nickles**. Would you provide for the committee a, because we had several—I was involved in this, Senator Kasten and other members of the committee last year.

Some of the complaints that were made, we had complaints on the loans that were made, we had complaints and probably still do, that a lot of the loans were made, again, on very uneconomic formulas—and I say formulas, I am not saying on the economic base that we are funding a lot of programs—very questionable economic bases.

Would you provide us with the improvements that you think that you have made through the negotiations to justify this increase?

Mr. **Brady**. Certainly.

[The information follows:]

Improvements Agreed in IDB-7 Negotiations

The IDB-7 negotiations resulted in an agreement on a reformed and more efficient and effective IDB organization which will be better equipped to encourage policy reform, growth, and development. Under IDB-7 half of lending will benefit lower income groups, 25 percent of lending will be fast-disbursing sector loans, and all sector lending will be co-financed with the World Bank unless Governors, with 75 percent of the vote, decide otherwise. The revised decision-making mechanism gives two Executive Directors the ability to delay loans up to 12 months while Bank Management works on resolving loan design problems. Bank Management is to strengthen the country programming process to ensure that all Bank lending will support policy reform and self sustaining growth, reorganize operating departments to implement sector lending and country programming, and alter staffing to improve the overall efficiency of Bank operations. President Iglesias will establish an environmental line unit to do environmental analysis of loans. As a result of these changes the Bank should produce better, more effective loans with IDB–7 funds.

REFORMS AT THE IDB

Senator NICKLES. Unless there has been significant improvements, at least this Senator is going to be opposed to granting the request for the $120 million for the Inter-American Development Bank.

If significant improvements have been made, and I might comment on that. Is there a larger percentage of the loans that are policy-oriented instead of just strictly project-oriented now in the Inter-American Bank?

Mr. DALLARA. Perhaps if I could add a word on this, Senator. Yes, there will be, but only when we are satisfied that all of the reforms that we have agreed to and have negotiated internationally are in place.

This negotiation for the replenishment of the Inter-American Development Bank was one of the most difficult the United States has been involved in in years in part because the administration, both this administration and the prior administration, fully shared your concerns and those of Senator Kasten and others about the shortcomings in IDB operations.

We are in the process now of seeing those reforms, seeing the reorganization being developed, seeing the implementation of new mechanisms to strengthen program lending. When we see those in place, then we believe the organization should be in a position to move ahead with some policy-based as well as project lending.

Senator NICKLES. Well, I make that point, I hope that you will follow it very closely. We will follow it very closely as well. We are not, or at least this Senator is not interested in funding a massive bureaucracy that is extremely well-heeled that is making loans of very questionable economic foundation, loaning money to questionable projects, socialistically directed, that basically are doomed to failure from the outset.

I want to emphasize that we want to work with you to see if some positive reforms can be made and, if loans are going to be made, whether it be made to really help the economic foundation of the country, not in a manner that would be negative.

IDB SALARIES

One final question, is there an effort by the Inter-American Development Bank to follow the World Bank's lead for salary increases?

Mr. BRADY. Would you say it again, Senator?

Senator NICKLES. Is the Inter-American Development Bank planning on following the World Bank's salary increase schedule proposal?

Mr. BRADY. We have not been informed whether that is the case.

Senator NICKLES. Would you find out and report back to us?

Mr. BRADY. Sure.

Senator NICKLES. Thank you very much, Mr. Secretary. It is good to see you again. Thank you, Mr. Chairman.

MDB LENDING AND THE ENVIRONMENT

Senator LEAHY. One of the things I might say to the Secretary while Senator Specter is coming in here is, when we deal with the multilateral banks on environmental loans, I hope that we are always looking at the possibility of not just having them make loans that are somewhat less dangerous environmentally, but actually be proactive and propose projects that actually improve the environment.

I realize, when we look at some of the damage that is being done to the environment worldwide, I suppose slowing the damage in many ways has to be considered an improvement. But I think we know what the needs are in a lot of these countries. We know they have to feed themselves, we know they have to house themselves, we know they have to get money. We know they have to take care of their people.

But I think we have got to be looking at ways to be proactive, to act in a way that actually enhances the environment rather than diminishes it. I know you feel that same way. But the more times you can pound the multilateral banks and say, "Get that message," I think you can safely say there would be a very, very strong bipartisan support for just that.

Senator KASTEN. Mr. Chairman, let me just comment before the Secretary has an opportunity to respond. Particularly energy conservation, that is an area that we can make some real contributions in.

Senator LEAHY. That really wasn't so much a question as much as my own feelings. I yield to Senator Specter, unless you want to say something on that.

Mr. BRADY. No; I agree with you.

Senator LEAHY. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman. It is nice to see you here, Mr. Secretary.

Mr. BRADY. Thank you.

DEBT-FOR-NATURE SWAPS

Senator SPECTER. Short of being on this side of the podium, when you were with us in the Senate, we like to see you there as Secretary of the Treasury. Senator Kasten has raised the issue of debt for nature and I would like to call your attention to some facts which a Senate delegation found on a trip 3 months ago to Brazil on this subject.

Senator Chaffe, Senator Bumpers, Senator Symms, and I were there. They are very apprehensive about the debt for nature swap because they are concerned that they will be giving up a debt which is of no value to them anymore, something which is gone, their borrowings, for resources on a rainforest.

There is no question about the necessity for preservation of the rainforest. That is a very sensitive issue with Brazil; we talked to President Sarney about national sovereignty. They have a lot of reservations about their obligations under the international debt, and I think they are wrong about that, but they have those reservations.

But it seems to me that a way to move through that area of disagreement is to condition preservation of the rainforest on future loans, so that they look at the rainforest as an asset to take care of the needs of their people on, from this day forward.

They are very much in need of loans, and I believe that when capital is made available to them for the future—so they have an opportunity to develop resources and provide jobs for the people of Brazil—that, in that context, they will be willing to scrap or eliminate some of their plans to use the rainforest for agriculture, which it really does not work for cattle farming.

But when it is a past consideration, this is a legal question. When you are dealing with past considerations, it does not support a whole lot because it is gone, and they are looking to the future. So I call to your attention that consideration, because I think we can obtain the same objectives because we will be advancing loans there in any event. At that time, we can utilize that to have some bargaining for preservation of the rainforest.

On that same trip, and I have a question for you on this one, Mr. Secretary, our Senate group stopped and met with President Carlos Andreas Perez of Venezuela. We were with him, I believe it was on the night of March 31, and he had just come back from visiting with President Bush and I think with you, Mr. Secretary.

DEBT REDUCTION

The accounts in the media of that day were that President Perez was making a representation that there was going to be a forgiveness of 50 percent of the Venezuelan debt to the United States and to other lending countries, and, at the same time, he was negotiating to borrow more money.

The question immediately arose, why in the world would we want to lend him more money if, on his existing debt, he was only willing to pay 50 cents on the dollar? We raised that question to him, and, in a rather bold manner, he said, "Well, our existing debt is really only worth 35 cents on the dollar, so if you get 50 cents you get 15 cents more than it is worth. In terms of lending us money for the future, we have to expand our economy and we have to have loans."

The question I have for you, and if you want to provide this on a confidential basis, I would respect that. But I would be interested to know what was said to give President Perez any basis, if anything, to expect the United States to forgive 50 percent of his indebtedness.

Mr. **Brady**. Senator Specter, I was not in the meeting with the President, but I am quite sure that the item which you are referring to was a hope on the part of President Perez that that would be the case.

The negotiations that are going on now between the debtor countries and the banks revolve around some of the questions that you have just raised. The countries have needs for increased funds, and they can either meet these needs through new loans, or they can meet them by reduction in the amount of old money that has to be paid back.

So, I think, if the essence of your question is why would anybody lend them new money if the value of old loans is being reduced to 50 cents on the dollar then the answer to that is that a country cannot qualify for a debt reduction program unless it has a program with the IMF that is a pretty hard program in terms of how the economy is going to be run. In other words, you have conditions in the country getting better, if it qualifies for a debt reduction program, because the money to facilitate these transactions comes from the multilaterals which attach strong conditions on their loans.

Regarding future lending, the answer is that there is good commerce and trade that goes on and that a lot of banks want to be part of that over the future. Second, if we get debt reduction really moving and you bring the level of debt down, then there will be less debt and the country will be able to meet its obligations and carry on its business as well.

Senator SPECTER. Well, what you are saying is that it is calculated to be profitable even if you discount the debt to 50 percent; there will be profit on the new loans and there may be some expectation that Venezuela will pay back the loans in the future.

But that seems difficult as you look, at least on the immediate past, over the past many years, as to what has happened. Do we really have an expectation that if money is loaned to countries like Venezuela, Brazil, Peru today that we will collect——

Mr. BRADY. Let us take Mexico, where the negotiations are going on right at this particular moment. The economic progress that President Salinas has made, plus the programs that he has put into place, plus the fact that he has been to the IMF and has agreed to a program lead us to believe that this is going to be a place where people can lend money, and, therefore, we can get into a debt reduction program there that makes sense.

As these negotiations are going on right now, there are some banks who want to be involved in debt reduction and there are other banks that want to be involved in providing new money. It is the beauty of the program. We think that there is enough of a different kind of menu here that each can make their own determination, whether they want to lend money or whether they are just going to take debt reduction for their old loans.

Senator SPECTER. I understand what you are saying, but it seems strange to me that President Perez was talking about a 50-percent reduction on old loans and expecting new ones. But I understand what you are saying.

BOUNTY ON DRUG TRAFFICKERS

Let me shift gears, if I might, in the remaining time that I have to the issue of drugs. Along with all the other responsibilities that you have as Secretary of the Treasury, you have responsibilities in the drug area with the Bureau of Alcohol, Tobacco and Firearms and with Customs and with some issues which are extremely difficult.

I note a comment in the press today and I had other obligations and was not here for the entirety of your session, and maybe you have already been asked about this report about bounty on drug traffickers. Have you discussed that so far today?

Mr. **Brady**. I am sorry; I did not quite hear what you said.

Senator **Specter**. An article in the Washington Post today about bounty on drug traffickers being blocked. Has that been brought up today?

Mr. **Brady**. No; it has not.

Senator **Specter**. Well, it is an interesting concept. What the press report says today is that senior Treasury Department officials have blocked a controversial Customs Service plan to pay up to $5 billion in bounties for information leading to the capture of drug traffickers such as Panama General Noriega and the Medellan cocaine cartel.

Now, I do not know if you qualify, Mr. Secretary, as a senior Treasury Department official. Perhaps you do. But the question that I have for you in this context is along the line as to what we are going to be able to do on dealing with the drug importers, the cartels and Noriega and many others in that field, where law enforcement has broken down.

For example, in Colombia, they have refused to negotiate an extradition treaty with the United States. Their judges are terrorized. The drug dealers captured the Supreme Court building and murdered 12 of the Supreme Court justices. Their attorney general has been murdered. There is absolutely a breakdown of law enforcement in that country.

We have moved toward what we call extra-territorial jurisdiction, where we are trying to bring people from outside the United States who commit violations which affect the United States, as, for example, in the terrorist field where we have spent tremendous sums of money and recently brought back a man named Fawaz Unis, a terrorist. He was captured by the FBI and CIA in the Mediterranean, convicted in Federal Court here in Washington.

We have a very active interest in bringing drug traffickers to the United States for trial. Part of what we are trying to do, former Attorney General Meese was talking about an international police force on a trip he made to South America in the spring of 1988. A number of us have been exploring the question of an international court.

The Senate passed a resolution in 1986 on terrorism, in 1988 on drug traffickers, so that it seems to me that, if we talk about money and even substantial sums of money, if we could put our hands on some of these major drug traffickers and to bring them into this country for trial, conviction, and imprisonment, it would be well worth very substantial sums.

I would be interested in your thinking about the possibility of some big bounties to try to bring these people here for trial.

Mr. **Brady**. Well, Senator Specter, I think, first of all, you have been a very successful prosecutor and your opinion in this area is probably worth a lot more than mine. I know that Customs has been considering this suggestion. We have not come to a determination.

Senator **Specter**. Well, I would, my time is up and I will conclude with this comment, that bounty hunters have been used and it would be better to have a different system so that law enforcement officers make arrests and you do not have to rely on bounty hunters.

But when you are dealing with people who are outside our jurisdiction where we cannot subject them to arrest, that it is well worth considering. If you could get jurisdiction and custody over Noriega for $5 million, it would be cheap.

Mr. **Brady**. I agree with that. I know as a prosecutor you have probably thought this thing through. But if we start putting bounty on people, I would not want to see a bounty put on people in the United States, too. I mean, it can go both ways.

Senator **Leahy**. I think probably we want to save that for another hearing, perhaps even another forum. I might say as far as General Noriega is concerned, the number of years that this country, at some of the highest levels, turned a blind eye to everything General Noriega was doing, ended up even having among some of our law enforcement agencies, with people who knew what he was doing and still sending him letters of commendation and all that because he was willing to help us in behind-the-scenes efforts of another matter.

As a result, General Noriega got emboldened to continue on all he has done. I hold no brief for General Noriega, but I recall the difficulties a lot of people had 4 or 5 years ago, myself included, when we would be criticizing General Noriega and then be told by our own Government that, "Well, we need him because he is such a great friend to us." Again, a matter for another forum.

ADDITIONAL COMMITTEE QUESTIONS

Mr. Secretary, I appreciate you being here. There will be questions for the record. I wish you well in juggling all these priorities, and, again, I would leave the one concern—I do not single you out, sir, for this; I have mentioned this to just about every witness that has come here in Foreign Operations—we have a fiscal form of a blivit, which is 10 pounds of requests in a 5-pound sack.

The administration has asked for far more things than we have money for, and I am very much in support of many of them. But the money is not there. So at some point, we are going to reach a time where we are going to have to set the priorities and we will be calling you and others as we do that.

Then Senator Kasten and I will retreat to our hidden, bulletproof sanctuary to try to make those cuts. Thank you very much, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

DEBT -- BRADY PLAN

SENATOR LEAHY: You mentioned several things private banks could do to reduce debt -- "debt/bond exchanges, cash buybacks, and non-collateralized interest reduction instruments." Can you explain to a lay person what incentives private banks have to do this voluntarily?

As I understand it, the World Bank and IMF would guarantee debt remaining after a reduction scheme between the commercial banks and a borrowing country. What would it cost those institutions, and does this mean they will be asking for large new capital increases? What will that cost American taxpayers? Can you give this subcommittee, which must find the money, a ballpark figure for additional appropriations to the IMF and the World Bank to finance debt reduction?

SECRETARY BRADY: The primary incentive for commercial banks to participate voluntarily in the strengthened debt strategy is that, in return for debt and/or debt service reduction, they will have greater assurances that their remaining exposure will be repaid. The "quality" of their assets is improved because of (a) the increased capability of the debtor country to repay its loans as a result of economic reforms under IMF and World Bank programs and the reduced debt service burden; and (b) the enhancements of principal and interest payments which the debtor will be able to offer. U.S. commercial banks, especially the regional banks, have already been reducing their LDC exposure, but often in ways which do not benefit the debtor country. One of the objectives of our initiative is to ensure that the debtor captures the benefit of these reductions in exposure.

Under the strengthened debt strategy, the IMF and the World Bank will provide resources in support of debt and debt service reduction, provided the debtor country undertakes needed macroeconomic and structural reforms. In particular, the country must adopt measures designed to encourage foreign investment, repatriation of flight capital and domestic savings. Backing from the international financial institutions (IFIs) would take two forms: (1) set-asides and (2) interest reduction:

(1) The IMF and the World Bank would allow a portion of their policy-based loans to be set-aside to back transactions involving significant debt reduction. These funds, which come out of resources already programmed for the debtor country, might be used to collateralize discounted debt/bond exchanges or for direct buybacks of existing debt. In effect, in lieu of using balance of payments support to service commercial bank debt, debtors would use some of this financing to accomplish debt reduction, thus

reducing the stock of debt and new financing needs for the future.

(2) The IFIs will also provide interest support for a limited period for transactions involving a significant reduction in debt or debt service. Only the interest support represents additional resources available to Mexico.

Our proposals recognize that while there is a limit to World Bank/IMF resources which can be employed in achieving debt and debt service reduction, we will attempt to make the best use possible of these limited resources to respond to debtor countries' needs. The World Bank can fully accommodate the proposed debt reduction and debt service reduction within its current capital structure. To maintain our leadership role and ensure that the World Bank actively fulfills its role in the debt strategy, however, we must meet our full commitments under the General Capital Increase authorized by Congress last year.

No decision has been reached regarding a quota increase for the IMF. At the April meeting of the IMF Interim Committee, however, the IMF Executive Board was urged to complete its work on the Ninth General Review with a view to a decision on this matter by the Board of Governors before the end of the year. The implementation of these new efforts to strengthen the debt strategy could help lay the basis for an increase in IMF quotas. There are, of course, other important issues that have to be addressed in the quota review, including the IMF arrears problem and a need for a clear vision of the IMF's role in the 1990s.

DEBT -- COMMERCIAL BANKS

SENATOR LEAHY: I understand some critics of your plan have said that since debt reduction means financial losses by banks, new regulations will be needed to force, or at least persuade, the commercial banks to participate in your plan. Do you agree?

When will we know what your plan can accomplish to reduce debt, or whether such regulations are needed? An editorial in the Washington Post on June 9 said that the banks' response to your proposal has been "inadequate" and that if your plan is going to get anywhere the banks have to do more and that the Administration must deal with them more forcefully. Do you agree?

SECRETARY BRADY: As you know, Mexico and its commercial bank advisory committee have recently reached agreement on a financial package that is the first application of the key elements of the strengthened debt strategy, including options for significant debt and debt service reduction. We had a number of meetings with both the Mexican negotiating team and the commercial banks in an effort to encourage agreement on a mutually acceptable package. These efforts were successful, and we welcome this agreement as a major step forward in implementing the strengthened strategy. We hope that agreements can also be reached between the commercial banks and other debtor nations in the coming months. Discussions are already under way with Costa Rica, the Philippines, and Venezuela.

It is critical to the success of the strengthened debt strategy that commercial banks enter into debt and debt service reduction voluntarily, as they have done in the case of Mexico. If they are coerced into doing so, banks will be less likely to issue new credits to recovering debtor countries either now or in the future. Renewed creditworthiness conducive to sustained economic growth is, in fact, a primary goal of the strengthened strategy.

Banks have been encouraged by regulators in recent years to boost their capital and reserves. We recognize that there are considerable pressures within Congress to take some action if banks fail to participate in providing some combination of financial support through debt reduction, debt service reduction, and new loans. However, we do not believe that increased reserve requirements are needed at this time to encourage banks to participate. Mandatory reserves could be costly to the Treasury in terms of tax benefits for reserving banks. U.S. banks normally receive tax benefits only when (a) actual losses are incurred or (b) reserves are mandated by regulatory agencies. This provides a tax incentive for reducing the stock of debt. The alternative path for the commercial banks involves grave risks of generalized moratoria and arrears. We believe that the new strategy, on the other hand, serves the banks' long-term interests. Banks that participate in debt reduction will hold new claims that are significantly enhanced. In addition, the quality of all outstanding claims will be improved by the debt reduction process.

DEBT -- IMPACT ON DEBT REPAYMENTS

SENATOR LEAHY: What effect would your debt plan have on the $1.3 trillion in total debt owed by the developing countries? How much of the $30 billion in annual interest payments from those countries could be reduced by your plan, and which countries would benefit?

SECRETARY BRADY: Debt and debt service reduction will be worked out on a case-by-case basis for each individual debtor country through negotiations with its commercial banks. It is very difficult to calculate on a global basis for all debtors the potential debt and debt service reduction which could accomplished. The exercise is imprecise owing to the many variables involved -- the number of countries, the prices of their debt, interest rate changes, the degree of interest reductions by the banks, the discounts on individual transactions, and the magnitude of debt that would be involved in debt and debt service transactions, including debt/equity swaps.

The plan is designed to benefit developing countries with difficulties in servicing their commercial bank debt which: (a) have a demonstrated balance of payments need; (b) negotiate Fund and World Bank programs; and (c) seek a debt reduction program. Access to the benefits of the strengthened debt strategy will hinge on each country's willingness to undertake needed economic reforms, particularly to encourage new investment and flight capital repatriation.

DEBT -- NEW LENDING

SENATOR LEAHY: I'm told that at the same time you're asking private banks to reduce debt, your plan calls for new lending to debtor countries by those same banks. Why would private banks be any more willing to extend new loans than they have been -- and why would those debtor countries be any more able to repay?

SECRETARY BRADY: We believe that the banking community at large will be willing to reduce debt and simultaneously make new loans if debt reduction is voluntary. Some banks will continue to have an interest in providing new money, while others will prefer debt or debt service reduction depending on each bank's particular circumstances. Some banks may also be prepared to do some of both. Debt and debt service reduction will both reduce individual countries' needs for new money and improve their financial positions, making them more able to service their remaining debts and more attractive borrowers in the long run.

DEBT -- OFFICIAL DEBT

SENATOR LEAHY: The sub-Saharan African countries owe the U.S. government $30 million in interest payments every year on past development assistance and ESF loans. While not much to us, that is a lot of money for them. Would your proposal offer any relief to them, or to other countries that owe official debt? Last year, this Subcommittee included a provision in its bill giving the President authority to forgive a portion of official debts owed by "least developed countries," or to convert the debts to local currencies. Does the Administration intend to use that authority?

SECRETARY BRADY: The debt initiatives that I have advanced relate to commercial bank debt only. However, as you note, the appropriations act for fiscal year 1989 contained a provision, Section 572, which permits the President, beginning in FY 1990, to relieve relatively least developed or Sub-Saharan African countries of dollar payments owed on economic assistance loans provided by the U.S. Government. To be eligible, the countries in question must have an economic program approved by the IMF or World Bank. After careful review within the Administration, the President announced on July 6 that we would proceed to implement this authority for Sub-Saharan African countries meeting the conditions specified in the Act.

DEBT -- ENVIRONMENT/DEVELOPMENT

SENATOR LEAHY: One idea being discussed in Congress is forgiving debt owed to the U.S. government on past foreign aid loans, in exchange for local currency being made available for development projects and protecting the environment. What do you think of this idea?

SECRETARY BRADY: Section 572 of this fiscal year's foreign assistance appropriations act gives the President authority to receive local currency payment or waive payment entirely on debt service owed on old Foreign Assistance Act obligations including development assistance and economic support funds. Exercise of this authority is limited to relatively least developed countries or Sub-Saharan African countries, and the countries in question must have an approved IMF or World Bank economic reform program. After careful review within the Administration, we have decided to implement this authority for Sub-Saharan African countries beginning October 1. It is estimated that in FY 1990, the total amount of debt service eligible for this treatment would be around $40 million.

As part of an internal review, we considered the most effective way to implement the authority, whether through the receipt of local currencies or waiving repayment entirely. It is my general view that the best way to implement Section 572 is by waiving repayment entirely on debt service owed because the amounts in most cases are relatively small. Further, it would be very time consuming to establish and monitor local currency accounts for development and environmental projects. While the concept of funding projects through such local currency funds is interesting, it would reduce, or eliminate, the effective "relief" felt by a debtor domestically.

However, in very limited cases where AID missions have needs for counterfunds, it may be useful to receive local currency payment for these old loans.

ECONOMIC POLICY REFORM (STRUCTURAL ADJUSTMENT)

SENATOR LEAHY: You mention in your statement the need for economic policy reforms in developing countries. I think everyone agrees that this is important. But there is concern, especially in Africa, about the pace of reforms and their impact on the poor. I understand this is one reason you have asked for $150 million for the IMF Enhanced Structural Adjustment Facility.

Structural adjustment usually means cuts in government spending, which means less resources for health, education, family planning and other social services. And it means unemployment, as government-owned companies are privatized.

If these reforms are necessary to promote economic growth, how do you ensure that the benefits of that growth reach the poor?

SECRETARY BRADY: Many of the reforms which developing countries must undertake to restore growth and deal with balance on payments problems are unavoidable and can have adverse effects on particular sectors. The ESAF will help to cushion the impact of these reforms by providing additional resources on the concessional terms appropriate for the poorest countries and encouraging the allocation of scarce resources in the most effective manner to promote growth. In this context, the IMF does try to take into account the effects of its programs on the poor, although the ultimate responsibility for the choice and implementation of specific measures belong to the concerned country. An illustration of the types of measures advocated by the IMF and their potential impact on the poor include the following:

- In many instances, publicly owned industries have required substantial government subsidies due to inefficient operations marked by excessive labor costs and pricing structures unrelated to market realities. The privatization of such industries will facilitate more efficient operations and reduce the need for government subsidies, thus freeing scarce funds for other purposes such as health, education, and welfare which benefit the poorest sectors of the economy.
- Price controls are often imposed as a means of holding down labor costs and subsidizing the urban poor. However, the low prices discourage production, contribute to migration from the farm to urban areas and require large government subsidies to sustain. By encouraging more market-oriented pricing, the ESAF will improve the supply of food, raise incomes for the rural poor, and reduce the flow of migration to the urban areas where housing and medical services are in short supply.
- Countries with balance of payments problems usually have overvalued exchange rates which tend to increase imports, frequently of nonessential goods, and discourage exports of products in which the country has a comparative advantage. More realistic exchange rates would promote production and employment in industries in which the country can compete while discouraging consumption in other areas.

ECONOMIC POLICY REFORM
(STRUCTURAL ADJUSTMENT)

SENATOR LEAHY: A recent report by the U.N. Economic Commission for Africa criticizes the World Bank for overlooking the severe social impact of economic adjustment programs. The report says that these programs have caused "significant reductions in government spending for social services" and that the World Bank's claim that "adjustment helps raise living standards overall and especially for the poor" is not supported by any documentation. What is your reaction to the UN report's strong criticism of the World Bank's policies in Africa?

SECRETARY BRADY: I would not dispute the report's observations on the need for a review of government spending priorities, the need for better debt management, and the importance of expanding the role of women in the economy.

However, the main conclusions of the report of the Economic Commission for Africa do not offer realistic alternatives to the economic adjustment programs supported by the World Bank and the International Monetary Fund in Sub-Saharan Africa. The report's recommendations would reverse the significant strides made toward economic recovery in Sub-Saharan Africa. Specifically, the report advocates multiple exchange rates, subsidized interest rates, food subsidies and price controls, and import restrictions. These economic distortions were the source of many of the problems in Sub-Saharan Africa. Their removal is critical to sustainable growth in the region.

The Bank is increasing its attention to the plight of the poor during adjustment, through social sector lending, support of investments directed to poor groups or regions which expand income generating opportunities and human capital, and efforts to improve the administrative capabilities of government agencies that deliver social services.

IMF - ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF)

SENATOR LEAHY: The Enhanced Structural Adjustment Facility is designed to alleviate the harmful effects of structural adjustment on the poor. Specifically, how does ESAF offset the hardship caused by economic reforms?

Let's take an example -- Honduras, a country which everyone agrees needs to reform its economy. The Administration has been pressing the Honduran government to sign an agreement with the IMF containing structural reforms. What portion of the 5 million Honduras will be hurt by these reforms, for how long, and what will the ESAF do to offset that hardship?

SECRETARY BRADY: You should be aware that Honduras is not an ESAF-eligible country.

As noted in the response to a previous question, the ESAF will provide additional resources on terms and conditions better suited to the economic situation of the poorest countries and help direct the reform effort towards a more efficient use of the scarce resources available to the country. This should help cushion the impact of the reforms that must be taken to restore growth and deal with balance of payments problems. Moreover, by using the available resources more productively the government will be in a better position to allocate funds to those programs that will help the poorest sectors of the country. This does not mean, however, that no hardship is involved and that some sectors of the economy will not be hurt. It is not possible to determine with any precision what portion of the population will be hurt and/or benefit. What is clear, however, is that the current situation is unsustainable and that improved growth prospects will benefit the country in general.

PROTECTION OF THE ENVIRONMENT

SENATOR LEAHY: How can the Treasury Department do more to get these banks to protect the environment -- not just to make their projects a little less harmful, but to initiate projects that actually have a net positive effect on the environment?

SECRETARY BRADY: The banks do undertake a number of projects that are directly beneficial to the environment. Examples include formulation of national environmental action plans, institutional strengthening of environmental agencies in borrowing countries, reforestation and watershed protection, soil conservation components in agricultural projects, mapping and land-use planning, coastal zone protection, water pollution controls, and programs to strengthen protection and management of wildlife reserves. The Treasury Department has pressed the banks to increase funding for these and other activities which are beneficial to the environment. In the important area of energy conservation and efficiency, Treasury is working with several non-governmental groups to encourage the banks to make changes in their energy lending programs. Incorporation of more end-use efficiency components in bank energy projects would help developing countries avoid some supply-side investments which are costly in financial and environmental terms.

SENATOR LEAHY: One thing I hear frequently from the environmentalists is that while we need stronger laws, all the laws in the world won't do the job unless attitudes change within the World Bank. I know the Bank has increased the number of environmentalists on its staff, but I'm told those people don't have enough clout to change the outcome. In the end, the dams still win out over the forest.

In 1987 World Bank President Barber Conable said the Bank would be a "strong force" in protecting the environment. Yet I'm told the Bank plans to lend hundreds of millions of dollars to Brazil to finance new hydroelectric dams in the Amazon. What is the Treasury doing to stop these loans?

SECRETARY BRADY: When the first Brazil Power Sector Project came along in 1986, the United States opposed the project because it included environmentally unsound investments. When the second power sector

project was under preparation, the Treasury Department successfully mobilized support from other donors and put Bank management on notice that the environmental impact of the loan would be intensely scrutinized. United opposition to the proposed loan led the Bank to withdraw it. The Bank is now preparing an energy conservation loan for Brazil; however, all bank loans to Brazil are currently held up because of the unfavorable macroeconomic situation. The Brazilian investment plan for the energy sector still contains a number of hydro- electric projects for the Amazon. The Bank has not been asked to finance any of these dams and Treasury has made it very clear that the environmental and social consequences would very likely make those projects unacceptable for financing from the U.S. point of view.

SENATOR LEAHY: One kilowatt saved by conservation equals one kilowatt generated. Do the World Bank's policies reflect that? How much energy will these dams produce and how much energy could be saved by conservation? Has there been a study on that?

SECRETARY BRADY: The World Bank has focused on stemming energy losses on the production side; these losses, occurring usually in the process of transmission and distribution, can be very large. Bank-financed projects to minimize these losses can help slow the demand for new generation capacity. The Bank's efforts to assure economic pricing of electricity (which is often subsidized in developing countries) also contributes to conservation. However, the Bank has not yet taken sufficient advantage of end-use efficiency improvements as a means of promoting conservation. One respected study on Brazil shows that the widespread adoption of efficiency improvements in industry (motors) and residential sector (appliances, lighting) could produce significant energy savings. Work on other countries have demonstrated similarly high benefit/cost ratios on investments in conservation.

One of the difficulties with promoting end-use efficiency is that many individual investment decisions have to be influenced whereas the decision to increase generating capacity is made in a centralized fashion. The Bank is making slow progress in this direction, particularly in increasing the efficiency of industrial energy use. Treasury, together with several non-governmental organizations with expertise in this area, has pressed the banks to include end-use efficiency improvements in the least-cost planning exercises for the energy sectors of borrowing countries. This would permit a comparison of the benefits and costs of investments in conservation and investments in generating capacity.

SENATOR LEAHY: What other big projects does the World Bank have planned for the Amazon? Are they giving loans to cut down the forest for cattle grazing?

SECRETARY BRADY: The only project in the current pipeline that would affect the Amazon is a project to improve resource management in the state of Rondonia. This project would intensify agriculture in established areas, improve forest protection and management, increase protection of the environment and tribal peoples, continue support for small farmer programs and social services. There are no plans to lend for cattle projects in the Amazon. In fact, the Brazailian government recently discontinued subsidies which had encouraged cattle ranching in the Amazon.

SENATOR LEAHY: I just received a list of 41 projects with potentially devastating impacts on the environment that are under consideration for funding by the multilateral development banks. Have you or your staff seen this list? How confident are you that funding for these projects will not be approved if it is determined that they will harm the environment? If we cannot be confident of that why should we support these institutions while they fund environmentally harmful projects?

SECRETARY BRADY: My staff are very familiar with the list you are referring to. It is prepared semi-annually by U.S. A. I. D., with the assistance of the multilateral development banks office in Treasury. The purpose of the list is to keep track of projects which may entail adverse environmental consequences. The usefulness of the list lies in the fact that early identification of the problematical projects allows us to contact the banks and ask for changes or further study. In a number of cases we have succeeded in improving the project by removing harmful components or including mitigation measures. In some cases, where the banks have failed to satisfy us on the environmental issues, we have opposed the approval of he project. We share the "early warning list" with other donors and try to marshall broadbased support for promoting environmentally sound projects.

SENATOR LEAHY: According to the Environmental Defense Fund, "the gap is widening between the World Bank's environmental rhetoric and conditions in the field in some of its largest lending programs." As evidence of that, they mention a huge iron ore project in Carajas, Brazil, where a series of charcoal-fired pig iron smelters will buy ore from a World Bank-financed mine and transport it on a World Bank-financed railroad. The project could destroy an area of tropical forest five times the size of Vermont.

What is this about--how much forest will be affected and how much air pollution will result? Do you know of other big World Bank projects like this that could cause serious environmental harm?

SECRETARY BRADY: We have been deeply concerned about the environmental effects of the development of pig iron smelters in the Carajas area. We have urged the World Bank's management to take up this issue with the Government of Brazil and to seek solutions that will stop the destruction of tropical forests areas in this way. We are hopeful that the process will have a positive outcome.

We have also examined this situation from a legal viewpoint, to determine whether or not the development of the smelters would mean that either the Government of Brazil, the guarantor of the World Bank loan in question, or the borrower, the Carajas Iron Ore Company, were out of compliance with environmental provisions in the loan contract. Our determination has been that neither one is legally out of compliance.

At the present time, our understanding is that four smelters are in operation and that licenses have been approved for an additional twenty-four smelters. Assuming that all of these smelters become fully operational, there is an estimate that 1,524 square kilometers of forest area would be affected by the smelter operations in any given year. This is a significant area and it warrants continuing concern on our part and efforts to change the situation.

With regard to air pollution, the World Bank's management believes that the effect from the smelters would not be significant but they have not had any studies on this issue. It seems to them that the most critical effects would clearly be on he forests, themselves, with loss of soils and biodiversity.

We are continuing to monitor the situation in Brazil quite closely with regard to the potential for environmental damage from World Bank projects. There is a project under consideration for natural resources management. However, the timing of the proposal is uncertain and it may not come forward before the end of the Bank's current fiscal year.

DEBT-FOR NATURE SWAPS

SENATOR LEAHY: Two years ago this Subcommittee included language in our bill directing the Treasury Department to encourage the World Bank to initiate debt-for-nature swaps. What have you done to implement this provision? What can we expect to see the Bank do as result? Is the IMF going to be involved?

SECRETARY BRADY: In response to the legislation you have cited, we completed a study in March 1988 on how the World Bank might increase its activities in this area. In that report, we encouraged World Bank management to play a more catalytic role in promoting debt for nature swaps and to consider putting together a pilot program in one or more countries that might have an interest in such programs. We have talked with members of the Bank's staff about this program on several occasions since then. In March of this year Treasury participated in a meeting organized at the initiative of Senator Kasten and others which included Doctor Lovejoy from the Smithsonian Institute and various members of Bank staff as well as Treasury Department staff in an effort to assess how the World

Bank can rather increase its attention to thee issues.

We are raising this issue as part of our discussions with other member countries regarding IDA-9, and have suggested that some of the resources provided under the agreement might be used for environmental lending and debt-for-nature swaps. We intend to pursue further the issue of World Bank environmental lending and its role in promoting debt-for-nature swaps at the September Development Committee meetings.

WORLD BANK/IMF PAY RAISE

SENATOR LEAHY: I have received a letter from Barber Conable explaining that the World Bank and IMF recently approved an 11 percent average pay increase for their employees. Apparently, the managers of these institutions have decided to ignore the recommendations of their own "Joint Committee on Staff Compensation" against such a large raise.

What recourse do we have? Why shouldn't we reduce our contribution accordingly?

Secretary BRADY: The United States opposed as excessive and unwarranted the recent approved pay raises for World Bank and IMF staff. We believe that the raises, and the new staff compensation system implemented in the two Institutions, do not adequately reflect the recommendations of the Joint Bank/Fund Committee of Executive Directors on Staff Compensation (JCC). Although a majority of other country members supported the new system and its resulting pay increases as necessary to attract and retain foreign national employees, we believe other less costly measures could have been utilized to overcome hiring difficulties in some markets caused by exchange rate movements.

We will continue to seek to modify the compensation system in the two institutions. In the meantime, I believe it would be inappropriate to reduce our contributions to these institutions. I say this only because the United States is pursuing initiatives which should not be jeopardized by further reductions in U.S. voting power and influence. In addition to the debt strategy, these objectives include assisting the lowest income countries in Africa and the trade and investment partners of the United States in other regions which are utilizing the financial and technical assistance of the World Bank and IMF to restore sustainable long-term growth.

POVERTY ALLEVIATION

SENATOR LEAHY: The World Bank has been criticized by American private voluntary organizations for not making the alleviation of poverty a priority in its lending policies. They have asked this Subcommittee to include language in its report urging the U.S. directors to the MDBs to work to ensure that "poverty alleviation is re-emphasized as a central or core objective of MDB lending."

Would you support such language?

SECRETARY BRADY: I do not believe this language is necessary. The World Bank is making poverty alleviation a core objective of its lending operations. While the Bank's lending programs have always been aimed at improving the living standards of the poor, poverty alleviation has been given new impetus in the Bank's lending programs. In fact, poverty is to be the subject of the 1989 World Development Report.

The World Bank's approach to poverty reduction consists of:

-- Creating appropriate macro-economic and sectoral policy environments which support sustained growth and poverty reduction;
-- Initiating programs to mitigate adverse social impacts where structural adjustment programs give rise to them;
-- Supporting investments, directed to poor groups or regions, to expand income generating opportunities and human capital.

The relative emphasis on these three elements varies from region to region. In Asia, the Bank has been expanding, improving and reducing the cost of basic health, education and nutrition programs for the poor. For example, the proposed Education Sector Project in the Philippines seeks to reduce drop-outs among low-income children and improve the quality of education in poor areas. As part of an effort to put the poverty strategy in the Philippines and Indonesia in a broader context, the Bank is (1) examining the linkages between macro-economic policies and poverty reduction programs, (2) supporting social and infrastructure programs, and (3) seeking to improve coordination between macro, sectoral and micro aspects of poverty strategy.

In Sub-Saharan Africa, the Bank has established the Social Dimensions of Adjustment program, which aims at helping several African countries to design and implement--as part of adjustment reforms--policies and programs to foster the participation of the poor in the process of growth and to mitigate the social costs of adjustment. Work has started in many of the 26 participating countries and project preparation is well-advanced in Madagascar, Guinea, Gambia and Senegal. A Food Security initiative is underway as well. In addition to ongoing efforts to increase food production, the initiative emphasizes special measures to reach vulnerable groups, reduce the short-term fluctuations in food supply, and increase effective demand for food. An "African Women Farmer Initiative" is underway to enhance productivity of women farmers; studies in this connection are ongoing in Kenya, Nigeria, Zambia and Burkina Faso.

In Latin America, the Bank has concentrated on improving the efficiency and equity of social sectors as well as supporting targeted programs. The Bank has initiated three regional studies: "Feeding Latin America's Children"; "Social Security Systems in Latin America--How to Enhance their Efficiency and Equity"; and, "Public Social Spending in Latin America". Examples of the Bank's support for targeted programs include the following:

-- The Emergency Social Fund in Bolivia, which funds many targeted nutrition and employment programs for the poor;

-- The Northeast Rural Development Program in Brazil, which seeks to raise the productivity and standard of living of the rural poor through provision of agricultural extension, credit, agro-processing services, potable water, health care and primary education; and,

-- The proposed Social Development Fund in Guatemala to support programs in health education, micro enterprises, and nutrition, especially for the poorest.

In Europe and the Middle East, the Bank will help to mitigate the social costs of adjustment. In Hungary, the Bank proposes to finance a credit component for gainful employment of those unemployed through industrial restructuring. In Poland a study is identifying groups likely to be hurt from the impact of price increases. In Jordan a social impact study is underway with the aim of identifying groups most likely to be adversely affected by an adjustment program.

INTER-AMERICAN DEVELOPMENT BANK

SENATOR LEAHY: The Administration is apparently satisfied with the agreement recently reached with the Inter-American Development Bank

The new agreement allows any member government that objects to a loan to delay its approval -- for up to one year if two members object. Is this enough protection -- why isn't the same environmental harm going to occur, albeit one year later?

SECRETARY BRADY: We are not relying on just the decision-making mechanism to improve lending quality. Throughout the replenishment our focus has been on securing a package of reforms to improve the quality and effectiveness of the Bank's operations. Those reforms included strengthening the country programming process to ensure that all Bank lending will support policy reform and self sustaining growth, reorganizing operating departments to implement sector lending and country programming, and changing staff to improve the overall efficiency of Bank operations. As a result of these changes the Bank should produce better, more effective loans. The new decision-making mechanism will serve as a final "check" on quality that will allow us to send a loan back to Management to correct any problems that might slip through.

ASIAN DEVELOPMENT BANK-U.S. CONTRIBUTION

SENATOR LEAHY: Now that Mr. Fujioka has announced his retirement as president of the ADB, how will this affect U.S. participation?

You did not ask for funding for a contribution to the ADB in the FY90 budget. Does this change the Administration's position?

SECRETARY BRADY: U.S. contributions to the Asian Development Bank and the Asian Development Fund are based on a variety of factors, including the needs of the borrowers and management's commitment to efficient lending operations. Although we had made some progress in encouraging the ADB to strengthen the quality of its lending operations under President Fujioka, we feel that more could have been accomplished. We look forward to developing a good working relationship with the next president, in order to further improve the ADB's lending operations.

The Administration did not ask for funding for the ADB in the FY90 budget because we have completed our contributions to the most recent general capital increase (GCI), and negotiations for the next GCI are not expected to begin until early 1990.

IRS RULING 87-124

SENATOR LEAHY: Have any commercial banks used IRS revenue ruling 87-124, issued in November 1987, which attempted to clarify the tax consequences of debt-for-charity swaps?

SECRETARY BRADY: To the best of our knowledge, only one U.S. bank has donated debt for use in such a swap. IRS Revenue Ruling 87-124, issued in November 1987, describes the tax consequences to a commercial bank that donates a debt claim to a U.S. charitable organization through a three-party transaction with the debtor country. Under the ruling, the bank recognizes a loss on the debt equal to the bank's basis in the debt minus the value of property (foreign currency) received in exchange; the bank then is entitled to a charitable contribution deduction for the value of the property (foreign currency) it contributes to the charity. In sum, the bank making such a contribution will deduct its full basis in the debt, through a combination of a loss deduction and a charitable contribution deduction.

SENATOR LEAHY: Would you support the US taking a leadership role by donating bilateral debt to assist regional MDB's like the Inter-American Development Bank with the creation of "Environmental Funds," fueled in part by bilateral debt donations from creditor countries such as Brazil, Mexico and Venezuela?

SECRETARY BRADY: The United States should be playing a leadership role on the full range of environmental issues in the multilateral development banks and I believe that we are doing so. The testimony that I have provided gives you some examples of that leadership and there are others that can be cited, especially our efforts in the IDA 9 negotiations.

With regard to your specific suggestions, there are a number of issues that would have to be addressed including the budgetary effect. A reduction in U.S. government budgetary receipts would clearly affect budgetary authority and outlays in the budget numbers. Declines in these offsetting receipts would raise net outlays and require reductions in other programs in order to be budgetarily neutral. This would affect the 150 account in particular.

Another issue to be considered is which government agencies would be involved in the provision of the debt and whether or not there would be policy reasons that would bear on our position. An additional issue is whether or not legislative authority exists to effect the transactions in those cases. There is also the question of moral hazard -- whether or not our willingness to contribute debt in some cases would cause other countries to seek equal treatment for their debts to the United States.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

NARCOTICS AND DEBT REDUCTION

SENATOR DECONCINI: In previous discussions we have had, you have expressed reservations about involving action on stemming narcotics trafficking in exchange for debt reduction. In your statement today, you comment that Mexico has reached agreement with the IMF on reform programs. Mexico is also a major source for drug trafficking into the United States. You are requesting that the United States spend $1.6 billion in taxpayers' dollars for the multilateral development banks, with an additional $150 million for the IMF.

Yet you claim that "we could impede progress" on debt reduction if we link your debt relief program to international drug eradication and interdiction efforts. I would have a very difficult time selling your proposals for IMF funding to my constituents in Arizona -- who see the effects of drugs from Mexico every day -- when we are not requiring any cooperative efforts against drugs when we reduce the debt burden for a country like Mexico. This is especially true in times of tight budgets and deep cuts like these. What, specifically, are your problems with this linkage?

SECRETARY BRADY: A country's access to IMF and World Bank support for debt reduction is contingent on the adoption of extensive macroeconomic and often difficult structural reforms by the debtor nation. The reforms are aimed at improving each debtor country's economic viability and moving it toward sustainable growth. These goals, along with reductions in external obligations, inspire countries to make the difficult decisions involved in this process. What I want to make clear to you here is that debtor countries are not receiving debt reduction for "free." IMF and World Bank support for such efforts will be in the form of loans to the debtor nation -- not contingent liabilities borne by the international institutions.

As you know, I share your concerns about the drug problem and the need for stronger eradication and interdiction efforts. I do not feel that it would be productive to link a country's efforts on drug eradication and interdiction with its debt reduction program because I believe that such a tie would likely slow progress in both vital areas. If we were to hold up a debt reduction program for Mexico, for instance, while we waited for it to take a particular eradication action, we would risk further damaging their already fragile economy. And we understand that economic decline tends to encourage, rather than slow, the narcotics business.

I believe that both these important policy areas demand strong and consistent action on the part of the United States. Mexico has undertaken a dramatic economic reform program in recent years, enduring many hardships to achieve its goals. The country now needs -- and deserves -- the international community's help to turn these efforts into economic growth to benefit all its citizens. Similarly, Mexico has made strides recently in eliminating corruption and pursuing eradication and interdiction programs. We need to continue to cooperate with these anti-drug efforts and to give the Mexicans positive encouragement to do more.

FINANCING PACKAGES

SENATOR DECONCINI: In your testimony you referred to the importance of commercial banks reaching agreements with debtor nations concerning financing packages, such as debt reduction, debt service reduction, and new money to help provide the external financial basis for sustained growth. How well has this goal been achieved?

SECRETARY BRADY: As you know, Mexico and its commercial bank creditors agreed on July 23 to a financing package consistent with our strengthened debt strategy. This package contained options to reduce both the stock of debt Mexico owes and the servicing payments it makes to creditors -- as well as the option for commercial banks interested in sustaining business in Mexico to make new loans. We welcome this historic agreement, which we anticipate will reduce Mexico's annual interest payments to commercial banks by nearly a third, resulting in savings of $1.5 billion a year. Total interest and principal savings for the next four years could be nearly $12 billion.

Several other debtor countries -- the Philippines, Costa Rica, and Venezuela in particular -- are also engaged in negotiations with their commercial banks to seek similar financial support, although the instruments and discounts may vary for individual countries.

PRIVATIZATION OF STATE ENTERPRISES

SENATOR DECONCINI: The lynch pin of your plan is the structural adjustment and economic policy reforms. This plan seems to attempt to "jump start" Latin American economies through these economic reforms and credit enhancements offered by the World Bank and IMF. However, after several years of implementing these reforms, social and political unrest has increased in indebted countries, along with their debt burden. For example, in Mexico indications are that real wages in Mexico may have fallen by as much as 50 percent over the course of the 1980s.

Who is benefiting from the economic opportunities that arise from the privatization of state enterprises? Are measures being taken to assure that all Mexicans benefit from the economic reforms?

SECRETARY BRADY: We believe that privatization of state enterprises can play an important role in relieving structural impediments which affect adversely debtor countries' growth prospects. Accordingly, we place particular emphasis on debtor countries' pursuing privatization in the context of their economic reform program.

Privatization programs can provide generalized benefits to the economy as a whole through enhanced resource efficiency and reduced budgetary outlays. More immediately, privatization programs by attracting foreign capital inflows, can provide direct benefits by raising the level of investment and economic growth in the country. To enhance the benefits of privatization, the World Bank is assisting Mexico in its program of privatization and public sector restructuring to assure that public enterprises are transformed into competitive private companies.

ROLE OF WORLD BANK AND IMF IN THE BRADY PLAN

SENATOR DECONCINI: You have legitimized the idea of debt reduction through your debt strategy and the pressure you have placed on commercial banks to take some responsibility for the creation of the debt problem. However, I am concerned about the role of the IMF and World Bank in the Brady Plan. Many say that the plan will not provide the debt reduction necessary to permit indebted developing countries to regain financial solvency. If that is so, and the World Bank and IMF serve as guarantors of the remaining debt, the likelihood of these taxpayer-supported institutions being called on their guarantees is greatly increased.

How can we be assured that if Congress provides funding for the World Bank and, later, a quota increase for the IMF, that we won't be accused of supporting a taxpayer bailout of the commercial banks?

SECRETARY BRADY: The strengthened debt strategy is not a bail-out of the banks, nor does it involve a major shift in risk on commercial bank loans to the U.S. taxpayer. As the recently concluded Mexican package illustrates, the strengthened debt strategy involves significant costs for commercial banks. It offers IMF and World Bank support for debt and debt service reduction transactions in order to encourage banks to take the necessary losses. The portion of IMF and World Bank policy-based loans set aside to support debt reduction transactions will come out of resources already programmed for the debtor country. Only the funds provided for interest support would represent additional resources targeted for the debtor country. IMF and World Bank funds will only be disbursed if commercial banks agree to significant debt or debt service reduction, involving real losses for the banks. IMF and World Bank support for such efforts will be in the form of loans to the debtor nations which must be repaid -- not contingent liabilities borne by the international financial institutions. Further, IMF and World Bank support will be provided only for specific collateralization or buyback activities of debtor countries and for limited interest support.

THE BRADY PLAN

SENATOR KASTEN: How much debt, in total -- not just from the World Bank -- are we talking about forgiving, and how much are we talking about restructuring?

SECRETARY BRADY: Developing countries as a whole owe approximately $460 billion to commercial banks. The strengthened debt strategy seeks to help those countries with large commercial bank debts and a clear balance of payments need which adopt sound economic reforms to reduce these external obligations. By committing themselves to an IMF/World Bank economic reform program, countries that meet the above criteria can gain IMF and World Bank support for debt and debt service reduction operations.

Because eligibility for treatment under the strengthened strategy thus requires specific actions and commitments by each debtor country, it is difficult to predict at this point how many countries -- and how much commercial bank debt -- will be affected by the recent initiative. Furthermore, because countries and commercial banks will have the option to choose among reductions in the stock of debt, reductions of servicing payments, or new lending, assessment of the blend of financial support to be made available for these countries cannot be made precisely.

DEBT FOR NATURE -- WORLD BANK

SENATOR KASTEN: Specifically, how will debt for nature and resource conservation provisions be incorporated into the World Bank's debt reduction program? What is Treasury doing to encourage the World Bank to promote resource conservation as a component of all debt restructuring negotiations?

SECRETARY BRADY: It is important to clarify the

World Bank's role in debt reduction. Those member countries that adopt a sound medium-term adjustment program and have clear needs for debt or debt service reduction in order to achieve reasonable medium-term growth objectives will have access to Bank support for debt and debt service reduction. Country program objectives should include measures to promote domestic savings and investment and appropriate policies to encourage direct foreign investment and flight capital repatriation.

World Bank support for debt reduction will vary. Countries with adjustment lending programs will be able to set-aside 25 percent of their three-year adjustment loans for debt reduction. For countries where most of the support is investment lending, around 10 percent of the overall lending program can be set-aside for debt reduction. Additional resources of up to 15 percent of overall three-year country lending programs can be allocated for interest support. This interest support will primarily be provided through Bank direct lending; guarantees will only be used in exceptional circumstances.

The World Bank is not directly involved in debtor country negotiations with commercial banks. Its support for debt and debt service reduction instruments will become available to the debtor nation in the form of loans once agreement has been reached with the commercial banks.

There is no direct link between the Bank's support for debt/debt service reduction and debt-for-nature swaps or resource conservation objectives. Making such swaps or objectives a precondition for World Bank support for broader debt reduction packages would delay and perhaps unduly hamper debt reduction negotiations.

However, the U.S. has strongly advocated including environmental considerations in project loan agreements that the World Bank negotiates with member countries. We have been pleased to work with key Congressional staff to develop legislation to help provide greater protection for tropical moist forests and other fragile eco-systems in developing countries. Specifically, the Treasury Department is considering whether a portion of World Bank environmental loans could be used to support debt-for-nature swaps. We have also made environmental reform a key condition for U.S. participation in IDA-9, with particular emphasis on procedures for assuring environmental impact assessment and increasing public access to environmental information about specific projects or programs. Further, we have suggested that some of IDA-9 monies could be used for environmental loans, including debt-for-nature swaps.

The IMF and World Bank Development Committee meeting this September will provide further opportunity for advancing environmental objectives. At that time, the Committee will be taking up the issue of further integrating environmental concerns into Bank operations. We intend to encourage Bank management at that time not only to become more active in encouraging environmental lending programs, including debt-for-nature swaps, but also to increase the priority it places on environmental impact assessments and public access to environmental information. We consider these measures critical to promoting sustained development and environmental protection.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

WORLD BANK - SALARIES

SENATOR KASTEN: I'm sure you are familiar with the compensation book which the World Bank has published. It is interesting for at least two reasons: 1) it is almost impossible to get any real information out of it, and, 2) it's a very slick document, which causes me to wonder how much it cost to produce.

Would you please provide that information to the Committee?

SECRETARY BRADY: The pamphlet entitled "World Bank Compensation System" was designed to explain to staff the new and complex staff compensation system. According to the Bank, it cost $46,900 to produce, including $40,000 in contracts for the text and graphics and $6,900 for printing 10,000 copies.

ATTRACTING GOOD PEOPLE

SENATOR KASTEN: In justifying this salary increase, the World Bank claims that it is difficult to attract qualified staff from Japan, from European member countries and even from some developing countries. Therefore, these salary increases are necessary. I suspect if we were to take the Japan example to its logical conclusion, where a dinner for two might cost $700, and a good cigar, $40 that all of us would be demanding much higher salaries.

Do you know for certain that the Bank is having difficulties in finding qualified United States citizens to work in the Bank?

SECRETARY BRADY: We do not believe the Bank is having major difficulties in finding qualified U.S. citizens to work in the Bank. Bank salaries and benefits are highly competitive. Moreover a large portion of Bank employees come from public sector agencies where salaries are considerably lower. It may be true, however, that the Bank is having some problems in recruiting and retaining U.S. staff with selected skills that are in high demand in the private sector. We believe however that selective use of recruitment bonuses and compensation policies could address these problems without the need to raise all salaries.

SENATOR KASTEN: What evidence have you seen that the Bank is in fact unable to recruit outstanding candidates to work at this institution?

SECRETARY BRADY: The Bank (as well as the IMF) management argued that its recruitment experience has demonstrated increasing difficulties in attracting highly qualified staff from selected foreign countries. The evidence presented to the Boards included declining recruitment from several countries and regions, rising rates of rejections of employment offers, and significant upward creep in the level of initial salaries relative to the salary structure which were deemed necessary to attract candidates. We concur that some difficulty was apparent. However, it was localized and may have been due to non-salary factors in many circumstances. In any event, we believe recruitment problems should have been addressed through intensified recruitment efforts and selective use of hiring
incentives.

OTHER BENEFITS

SENATOR KASTEN: Can you tell the Subcommittee what other benefits World Bank employees receive aside from their salary?

SENATOR BRADY: The costs to the individual and extent of coverage depend on the individual's salary level, marital status, rank, etc. The Bank is in the process of surveying the scope and level of benefits in outside organizations, and the Board of Directors will review the Bank's benefit package later this year. We will be seeking as necessary to bring such benefits into line with market practice. The following is a list of benefits currently available to Bank employees: medical insurance, life insurance, operational travel insurance, optional group accident insurance, annual leave and holidays, sick leave, administrative leave, emergency travel, emergency leave, leave without pay, maternity leave, home country leave (expatriates), overtime (support staff only), staff retirement, payment to survivors, dependent allowance, dependent education benefits (expatriates), partial social security reimbursement (for US staff paying self-employment rates), tax allowance (US staff), relocation on appointment, G-V household (domestic) (G-IV visa staff only), spouse travel, workers compensation, financial assistance, resettlement.

WILL IDB MIRROR THE WORLD BANK?

SENATOR KASTEN: Do you know of any movement in the Inter-American Development Bank to secure a similar pay increase?

SECRETARY BRADY: Historically, the IDB adjusts its pay schedule in August. I do not believe that the IDB will propose an increase anywhere near that of the World Bank.

IMF AND CONSERVATION

SENATOR KASTEN: What specific actions have been undertaken in the past year to bring the same environmental criteria we insist on at the MDBs to the IMF?

SECRETARY BRADY: The IMF does not finance specific projects as does the World BAnk. Rather, the IMF emphasizes broad economic polices -- monetary, fiscal, and exchange rate measures -- to deal with balance of payments problems. These measures do not have a direct impact on the aspects of the environment that are of primary concern to environmental groups.

Efforts to link macroeconomic policies to environmental considerations could also impair the IMF's ability to address broader responsibilities, particularly as they relate to LDC debt.

In these circumstances, it is more appropriate that environmental issues be addressed by the World Bank, although the IMF could draw upon the Bank's expertise in the event that a specific environmental issue arises in connection with a Fund program. We are prepared to encourage the Fund to do so.

GREENHOUSE EFFECT

SENATOR KASTEN: A scientific consensus is emerging that global warming is caused by the so-called greenhouse effect. This global climate change will have profound ecological, economic and security implications. The loans of the MDBs are of great importance in limiting or promoting the release of more carbon dioxide into the atmosphere.

Are the U.S. executive directors to each MDB raising concerns about the greenhouse issue within these institutions?

SENATOR BRADY: Yes, the U.S. executive directors do raise the greenhouse issue both at the level of the individual project and at the policy level. In particular, the EDs are pressing the banks on energy conservation and efficiency improvements which would contribute to the mitigation of the global warming problem. The U.S. has also urged the banks to support the recommendations and policies arising from the Montreal Protocol on CFC gases. For example, as CFC substitutes become available, the banks could finance programs to transfer the new technology.

SENATOR KASTEN: How are the World Bank and other MDBs factoring in the long term consequences of atmospheric carbon loading into their energy policies and loan portfolios?

SECRETARY BRADY: The World Bank has formed a working group on global warming to examine the issues and come up with guidelines for the Bank's lending program. This group is expected to report to bank management at the end of this year. The other banks are also looking at the global warming issues and considering the consequences for their energy lending programs.

CHANGE IN TAX POLICY TO PROMOTE DEBT-FOR-NATURE SWAPS

SENATOR KASTEN: The financial incentives for financing private debt for nature swaps are no better than simply taking a write-off of a loss. This gives little encouragement to finance positive actions. Would Treasury be willing to adopt tax policies that would encourage commercial debt for nature swaps?

SECRETARY BRADY: We have carefully analyzed tax proposals aimed at spurring donations of commercial banks' developing country assets to charitable organizations for use in debt-for-nature swaps. These proposals would involve offering commercial banks a tax credit equivalent to the secondary market price for debt paper for those assets donated to conservation organizations. These proposals, in essence, would have the U.S. taxpayer assure commercial banks a return on their donation of debt paper equivalent to the cash return if they were to sell the paper in the secondary market. In effect, there would be no private contribution involved; the U.S. government would be "contributing" the differential between tax credits and tax deductions to commercial banks to make these transactions work.

There are several other difficulties with offering tax credits for these swaps. First, other taxpayers would seek similar treatment on their charitable donations. Second, the U.S. Government would essentially be subsidizing these swaps through its revenue loss at a time of severe budgetary constraint. Third, it would be difficult to put a limit or ceiling on the aggregate tax incentives for debt-for-nature swaps.

REPLENISHMENT OF IDB

SENATOR KASTEN: The replenishment agreement with the IDB has been negotiated, and has resulted in a $26 billion increase from the member governments.

When will Treasury seek these funds? Will you seek an authorization? How were environmental concerns included in these negotiations? What oversight and leverage are we using to ensure compliance with these reforms?

SECRETARY BRADY: We have submitted authorization legislation for the IDB's Seventh Replenishment and have testified on it in both the Senate and the House. The first payment on subscriptions to the replenishment are due in October, 1990, so the necessary funding would be included in the FY 1991 budget request.

As part of the replenishment it was explicitly agreed that the IDB will devote more staff and financial resources to strengthen the technical and institutional capabilities of borrower country governments to solve the problems of environmental management. As part of the overall agreement on the replenishment it is also understood that the recommendations of the Bank's internal task forces will be implemented. Those recommendations include establishing an environmental division in the Project Analysis Department with responsibility for assessing the environmental impact of the projects the IDB finances, enhancing relations with non-governmental organizations, improving the dissemination and collection of environmental information and hiring a core group of environmentalists to support technical staff.

The implementation of the replenishment agreements and the reorganization of the Bank is proceeding. The key elements of both should be in place by the end of the year, well before we would put up our money. If the replenishment agreements and understandings are not fulfilled, we would not feel obliged to provide our subscriptions under the replenishment.

CARAJAS

SENATOR KASTEN: In last year's appropriations bill, we included report language directing treasury to review the environmental performance of the World Bank Carajas project. We further directed the department to identify what leverage was available to insure compliance within the environmental requirements of this loan. That review of leverage was to include the possibility of opposing future loans to Brazil.

We want to support environmental protection and lending portfolios in Brazil, but we are deeply concerned about the apparent disregard for the environmental performance standards applied to this loan.

I understand your legal department has determined it is not in violation of the contract. I would like a copy of those findings.

SECRETARY BRADY: I would be pleased to provide to you the views of the Assistant General Counsel (International Affairs).

OVERSIGHT OF ENVIRONMENTAL ISSUES AT MDBs

SENATOR KASTEN: What are you doing to improve the ability of Treasury to perform these (environmental review) functions?

SECRETARY BRADY: Overall, I believe that Treasury staff have done an excellent job in reviewing the reforms in the banks and in pressing for further progress in the environmental area. Eighteen months ago, we increased our staff on environmental issues from one to two. The two staff members who work full time on these issues are able to draw on a number of U.S. agencies as well as the executive directors' staffs for assistance and specialized expertise. U.S. AID and the Environmental Protection Agency each have a full time staff member on MDB environmental issues who work with Treasury. The non-governmental organizations are helpful in bringing issues to our attention and specialized knowledge as needed. Essentially, while Treasury has the leading responsibility, there is a small community of knowledgeable professionals whom we have brought into the process and who contribute their expertise to our efforts to reform the banks. We are working to extend this system.

However, there is no doubt that environmental issues have become increasingly important and complex and that the workload has grown enormously. Extensive coordination with other U.S. agencies, the Congress and other countries is required. We have taken initiatives in the Organization for Economic Cooperation and Development, the United Nations Environment Programme and at the Economic Summit. We participate in the intergovernmental panel on global climate change. Environmental issues are also key to the annual meetings of the banks and replenishment negotiations. These new contracts frequently provide additional expertise and experience on environmental problems. So while there is clearly a great deal to do in this area we are continuing to broaden and improve our efforts.

PLAN REWARDS THE BAD GUYS

SENATOR KASTEN: Many developing nations have acted to reduce their foreign debt -- I might add that they have done this with much encouragement from us. However, some have not implemented the tough domestic restraints or created incentives for increased private sector growth like we have encouraged. Isn't this proposal really for a system that rewards the bad guy? The countries that have bitten the bullet to reduce their debts will benefit the least from this plan while those who have ignored our counsel will benefit the most.

SECRETARY BRADY: I disagree. Your argument is based on the fact that those countries whose economies are weakest and most poorly managed tend to experience the greatest discount on their debt. You have further inferred that these poor performers with deep discounts on their debt will benefit the most from the strengthened strategy.

However, this strategy is linked closely to each country's willingness to undertake needed economic reforms under the supervision of the IMF and World Bank. Without an economic reform program in place, no debtor country will have access to IMF and World Bank funds to support debt and debt service reduction transactions.

Furthermore, the degree of reduction each eligible country receives will be determined in negotiations between that country and its commercial bank creditors. We anticipate that, while secondary market prices will not be irrelevant, the major determinants of the discount in individual cases will be the country's financing needs and its commitment to implementing sound economic policies in the long term.

NEW BANK BAILOUT

SENATOR KASTEN: These new restructuring loans will be guaranteed by Treasury and ultimately by the American taxpayer. Can you guarantee to me and to other taxpayers that we are not just bailing out the commercial banks by rescheduling debt? I believe we may be headed for another FSLIC bailout here, too. How many hundreds of millions of dollars are we exposing taxpayers to?

SECRETARY BRADY: The strengthened debt strategy is not a bail-out of the banks, nor does it involve a major shift in risk on commercial bank loans to the U.S. taxpayer.

The strengthened debt strategy involves significant costs for commercial banks. It offers IMF and World Bank support for debt and debt service reduction transactions in order to encourage banks to take real losses. IMF and World Bank funds will only be disbursed if commercial banks agree to significant debt or debt service reduction.

Such IMF and World Bank support will be provided by means of loans to debtor countries which must be repaid -- i.e., on the same terms as normal IMF and World Bank loans. The set-aside and interest support funds identified in the strengthened strategy differ from normal loans only because they are targeted for use by debtor countries to support debt and debt service reduction instruments. Further, the resource requirements of the strengthened strategy can be accommodated in the World Bank and initially in the IMF within the existing capital of these institutions.

Furthermore, I want to emphasize here that the objective of this strengthened strategy is to reduce debtor countries' obligations to a level that they can manage. By reducing its debt and debt service burdens, a debtor country can improve its economic and financial position and enhance its ability to repay external obligations.

DEBT-FOR-NATURE E.C. INITIATIVE

SENATOR KASTEN: On April 12, Spanish Prime Minister Gonzales, who is currently the head of government holding the Presidency of the EEC, announced at the European Parliament that he intends to put the issue of debt for nature swaps on the agenda of the June EEC meeting. In particular, he wants to pursue the specific role the European Community can play in broadening this debt alleviation and environmental protection mechanism.

Does this heightened interest by the Europeans send a strong signal that the U.S. Government should be moving more aggressively to promote involvement in these transactions?

SECRETARY BRADY: The U.S. Government is strongly committed to supporting debt-for-nature swaps. We continue to advocate such swaps as important mechanisms for funding environmental and conservation aims in developing countries as well as for passing on to these countries some of the benefit of the market discount on their debts.

We welcome the growing international support for environmental and conservation concerns, and for debt-for-nature swaps in particular. We are pleased that the communique of the recent G-7 Summit pointed out that these swaps can, in special cases, play a useful role in environmental protection.

We continue to advocate debt-for-nature swaps in the market and, as discussed elsewhere, to urge the World Bank to become more involved in this area.

NO ACTION ON DEBT FOR NATURE

SENATOR KASTEN: Legislation has already been enacted and signed into law requiring the Treasury to promote debt for nature swaps in the public international financial institutions. Why was there no mention of these swaps in the announcement of, or subsequent statements about, your debt plan?

SECRETARY BRADY: The U.S. initiative to strengthen the debt strategy increased the emphasis on debt and debt service reduction by commercial banks as a complement to new lending. A key objective was to accelerate the pace of debt reduction occurring in the market and to pass the benefits directly to the debtor nation. Debt/equity, debt-for-nature, and other debt-for-development swaps were already strongly supported by the U.S. Government under the so-called "Baker Plan." Our initiative sought to encourage a broader range of debt reduction instruments to be negotiated voluntarily by commercial banks as a means of financial support that would also reduce future debt burdens. There has been no change, however, in our support for debt/equity and debt-for-nature swaps, which are fully compatible with this strategy. More recently, we have been considering whether a portion of World Bank environmental loans could be used to fund debt-for-nature swaps.

DEBT-FOR-NATURE IN THE BRADY PLAN

SENATOR KASTEN: In the FY88 Appropriations Bill, this subcommittee asked Treasury to review options for promoting debt for nature exchanges. Since the announcement of the Brady Plan, my office has repeatedly raised this issue. What specific provisions are made in the Brady Plan for carrying out debt for nature actions?

SECRETARY BRADY: Because debt-for-nature swaps have traditionally taken place in the market, without government involvement, no special provisions were established as part of the strengthened debt strategy to carry out these swaps.

As I have mentioned before, we remain strongly supportive of debt-for-nature swaps. We have been working with the World Bank to increase its role in this area and have most recently suggested that a portion of its environmental lending be used to fund such transactions. We look forward to continued work with you and your colleagues in Congress to identify efficient means for encouraging debt-for-nature swaps.

TREASURY DEBT REPORT -- WHERE'S THE ACTION?

SENATOR KASTEN: In Public Law 100-202 Section 537(c), this subcommittee required Treasury to undertake and then act on a study of ways the World Bank, other MDBs, and the IMF could, without writing down their own loans, facilitate and promote so-called debt for nature swaps. As required by this subcommittee, Treasury submitted a report and implementation plan to us in April of 1988.

What further progress has been made by the department in abiding by the directives of that legislation and the implementation plan of April 1988? Would you comment specifically on the report recommendation that the World Bank initiate one or more pilot programs in interested nations? What actions have the World Bank, other MDBs, and the IMF taken with respect to facilitating debt for nature swaps? How does Treasury plan to pursue this matter further?

SECRETARY BRADY: As you indicated, the Treasury Department has completed a study on how the World Bank Management could increase its activities in the area of debt- for-nature swaps. That study was done last year and it encouraged the World Bank to play a more catalytic role in promoting debt-for-nature swaps and to consider pilot programs in one or more countries that might be interested in these programs. We have met with members of World Bank staff on several occasions to consider how we might proceed. As part of IDA-9 negotiations, we have suggested that some of the resources provided under the agreement might be used for environmental lending and debt-for-nature swaps. We will continue to pursue this issue in Development Committee meetings in September and at other meetings with our colleagues from other countries as part of the annual meetings of the World Bank and IMF.

BRADY PLAN -- OFFSETS

SENATOR KASTEN: One of Treasury's objections to forgiving public debt is the cost of such action. How will this action be scored for budgetary purposes? How do you propose to pay for this action? What kinds of offsets are you prepared to offer?

SECRETARY BRADY: The recently strengthened international debt strategy does not include provisions for the forgiveness of public debt. Rather, it addresses commercial bank debt problems of developing countries. The reduction of debt or debt service by commercial banks does not have budgetary implications for the U.S. Government.

In a separate initiative, the Administration has decided to move forward on implementing a provision (Section 572) contained in the Appropriations Act for 1989. Under this provision, the President can, beginning in FY 1990, receive payments in local currency or waive payments entirely on amounts owed by relatively least developed or Sub-Saharan African on economic assistance loans. To be eligible for this forgiveness, the country in question must have an economic program approved by either the International Monetary Fund or the World Bank. After careful review, the President announced that we would exercise this authority beginning October 1, 1989 for Sub-Saharan African countries. To the extent that we forgive amounts that we otherwise would have expected to receive, the budget can be affected and there can be a consequent need for offsets. We would expect the amounts involved to be relatively small and therefore manageable.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

OPPOSITION

SENATOR D'AMATO: Moody's has indicated that the proposed debt relief plan poses "potential threats to the World Bank's preferred creditor status." How would you respond to that assertion?

The G-7 recently voiced some concern over having the World Bank and the IMF indirectly guarantee interest payments for banks that agree to reduce the principal or interest on their third world loans. What were the concerns of the members? Mr. Ruding, Chairman of the IMF Interim Committee, rejected debt-service reduction as too costly to bear. Is that the consensus opinion within the IMF?

SECRETARY BRADY: The strengthened debt strategy is designed so that it does not threaten the World Bank's preferred creditor status. Under the strategy, the World Bank funds will be lent directly to the debtor country for the purpose of repurchasing debt, purchasing collateral for debt/bond exchanges, or providing interest support for transactions which involve significant debt reduction or debt service reduction. The debtor government will be obligated to repay these loans to the World Bank. The World Bank's preferred creditor status remains intact, since the strategy does not envision a pari passu linkage between repayments to commercial banks and repayments to the World Bank and the International Monetary Fund.

The G-7 has now fully endorsed the strengthened debt strategy, including the use of additional IMF and World Bank resources for limited interest support. When we introduced the concept of interest support during the April meetings of the Interim and Development Committees, a number of members wanted more time to consider the issue since it represented additional access to IFI resources. As a result, the Committees instructed the Executive Directors of the IMF and the World Bank to examine interest support on an urgent basis. After careful examination, both the IMF and the World Bank Executive Boards approved in principle additional access to debtor countries for the purpose of interest support.

The mechanism for providing interest support will not affect the preferred creditor status of the international financial institutions. The IFIs will lend the funds for limited interest support directly to the debtor. The debtor will deposit the interest support funds in an escrow account to back interest payments for a limited period (i.e. 1-2 years) on the debt reduction and debt service reduction instruments held by commercial banks. If the debtor misses interest payments, the funds in the escrow will be drawn down to make the payment. If the debtor does not miss interest payments, the interest support funds will roll forward to cover subsequent years.

STEMMING CAPITAL FLIGHT

SENATOR D'AMATO: Capital flight continues to bleed debtors white. I was pleased to see that it has received considerable attention in your plan. Realistically, how can we staunch the flow of precious funds out of the Third World when the investment climate remains so poor?

SECRETARY BRADY: We place considerable importance on debtor countries putting in place measures which can help to reduce capital flight and lead to its repatriation and are pleased to see this emphasis increasingly reflected in countries' economic programs. The key, as you note, in your question, is to provide a favorable investment climate. In this connection, debtor countries should review, among other things, their overall investment and tax regimes to remove disincentives to investment. This includes reducing or eliminating limitations on remittances of profits and dividends, which can discourage both foreign and domestic investors who have capital abroad. It also may need to involve lowering overall tax rates, broadening the tax base, and reducing capital gains and dividend taxes.

Appropriate macro-economic policies are also critical. Policies which reduce inflationary pressures, establish realistic interest rates, and maintain competitive exchange rates are necessary conditions for guaranteeing that domestic capital remains in the country and capital held abroad returns. Such policies ensure that the overall economic situation is stable, an essential precondition for investment by both foreigners and domestic citizens. However, if countries aggressively pursue such policies they can avoid capital flight and even benefit from the return of capital held abroad.

SUBCOMMITTEE RECESS

Senator **Leahy**. The subcommittee will stand in recess until 2:30 p.m., Tuesday, June 20. At that time we will receive testimony on Central America from the Assistant Secretary of State for Inter-American Affairs, and the Assistant Administrator for Latin America, AID.

[Whereupon, at 3:30 p.m., Thursday, June 15, the subcommittee was recessed, to reconvene at 2:30 p.m., Tuesday, June 20.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1990

FRIDAY, JUNE 23, 1989

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:02 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Patrick J. Leahy (chairman) presiding.

Present: Senators Leahy, Lautenberg, Harkin, Kasten, and Hatfield.

DEPARTMENT OF STATE

BUREAU FOR INTER-AMERICAN AFFAIRS

STATEMENT OF BERNARD W. ARONSON, ASSISTANT SECRETARY

AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

STATEMENT OF FREDERICK W. SCHIECK, ACTING ASSISTANT ADMINISTRATOR

OPENING REMARKS OF SENATOR PATRICK LEAHY

Senator LEAHY. Good morning. I appreciate all the work everybody has put into this hearing, especially those who worked well into the night. I know when I left here around 1:30 this morning, there were a number of people still working on this.

I understand our witness is on his way up here, but as we will be having votes this morning, I think we ought to get started.

We will have as witnesses Bernard Aronson, the Assistant Secretary of State for Inter-American Affairs, and Mr. Fred Schieck, the Acting AID Administrator for Latin America and the Caribbean. When Mr. Aronson was nominated, I said we would not hold a hearing on Central America until he could testify. I am glad to see you are now here. We have rescheduled this hearing at least three times because we wanted to do it after you were confirmed. And now that you are, we are able to have it, and I am pleased that you are back safely from the Soviet Union and could be here.

My insistence on having Mr. Aronson appear is because Central America and especially El Salvador will be the most important and difficult issue the subcommittee is going to face this year. Right after I became chairman of this subcommittee, I told Secretary Baker that while I would not alter my long opposition to the previous administration's Central America policy, I was willing to try to explore the possibility for a fresh course in that region with the new administration.

I met with Secretary Baker yesterday afternoon and reiterated this and discussed with him the hearing that we are having today and some of the concerns that I would raise at the hearing. I also talked with the Vice President yesterday about his trip to Central America and discussed with him some of the issues that I would be raising at the hearing this morning.

Mr. Aronson, now that you are in place, I hope a dialog can begin and the administration is genuinely interested in discussing a broader approach to ending the war in Central America.

The history of American involvement in Central America is a dismal record of a failure to understand the roots of the conflict. We have failed to align ourselves with the desire of people to end centuries of injustice and exploitation and repression by savage military establishments allied to corrupt and selfish oligarchies. To a great extent, we are paying the price for that failure today in Panama, in Nicaragua, and in El Salvador.

During the Reagan administration we saw how costly and destructive our policy could become. We poured billions of American tax dollars into Central America—$5 billion into El Salvador alone, a state that geographically is even smaller than my own State of Vermont and is smaller in population than most States in the United States. But we poured $5 billion American tax dollars into El Salvador. I think most of us are hard-pressed to see what we accomplished with it.

Then Panama—a haven for drug trafficking and money laundering—is ruled by a brutal dictator who was coddled for years by the Reagan administration and who now makes the United States look impotent. He is a dictator who was involved in drug dealings for years and high level officials in the administration were aware of it. Yet not a thing was done about it because they—for reasons I am sure you are aware of—turned a blind eye to the drug dealings that General Noriega was involved in. And now they express outrage. The outrage should have been expressed years before.

Nicaragua—after 40 years of a ruthless dictatorship supported by the United States—became the obsession of an American president who saw this tiny, impoverished country of 3 million people as a threat to our national security as though somehow they were going to march up through Central America attacking Texas and the rest of the United States on their way. And yet, today it remains one of the poorest countries in the hemisphere.

El Salvador: We send $1.5 million every day, 7 days a week, yet a political murder a day is commonplace. Now it is governed by a party dominated by Roberto D'Aubuisson, a man with unquestioned ties to the death squads.

Guatemala, after 15 years of murderous repression by the army and the oligarchy, lives today in a state of no war/no peace. It is constantly threatened by new military coups. No strong civilian political leadership is emerging to give strong democratic leadership.

We see the prospect of a weak, ineffective Cerezo presidency being succeeded by a handpicked crony, notable mainly for his corruption and lack of qualifications to hold high public office.

Tens of thousands of Central Americans have died and hundreds of thousands have fled to the United States where they compete with our own citizens for jobs and social services.

Mr. Aronson, this is a damning indictment. American policy in Central America, measured by any objective standard, has been a costly and bloody failure.

The United States has important strategic and economic interests in Central America. I do not question that. In fact, I do not think anybody does. But it is time to step back and look at what we have come to, where we have been, at what cost. Where we are going, why we are doing what we are doing, how we got there.

Americans everywhere are just like the people of my own State of Vermont. They are generous and they are patient. The people of this country are not going to pay for an endless war in Central America to maintain corrupt and undemocratic regimes in power any more than they were willing to support an endless war in Vietnam 20 years ago. There has to be a different course in Central America or we are eventually going to see the collapse of the American position in this vital region and in our own hemisphere.

Now, let's take a look at some of the things we have accomplished in the last few months with the new administration. The bipartisan accord on Contra aid was possible because the Secretary of State was willing to consult seriously with the Congress on an issue that badly divided us for years. In fact, it was the first serious consultation I had seen in years. And for once I think the executive branch actually took the concerns of the Congress seriously. In doing so, I think they took seriously the concerns of Americans, of U.S. citizens.

But this was only a first step. We want to know what action the administration is taking to promote the goals of that accord, the settlement of the Contras and a diplomatic approach to solving our differences with the Sandinistas. Today I would like to know whether we can expect similar cooperation in designing a new policy on El Salvador that also has strong bipartisan support. Frankly, nothing is going to work unless the President and the Congress can work together, and even that will work only if it has bipartisan support.

So, this subcommittee needs answers to these questions before it can make difficult decisions about how much aid and what kind of aid we will provide to Central America. And without such answers and without some clear idea of where we are going, I have no intention of bringing forward aid requests for votes.

I am very concerned that you are requesting essentially the same amounts of aid for the same purposes as the last administration. I hope that is only because you wanted to wait for an opportunity to consult with the Congress to work out a broad agreement before changing course because if it is simply "life goes on the same as before"—while I cannot speak for each member of this committee—I can suggest that at least with the chairman of the committee you may have some difficulty.

So, having given you such a friendly and enthusiastic greeting, Mr. Aronson—and by now you are probably wondering why you bothered to fly back—I hope you take none of this personally, but I hope you will take it professionally. I wonder if you might give us a few minutes of your thoughts, and then I have a number of questions.

I am going to try to move rapidly forward on this only because you know we are still in session. When we finished up in the wee hours of this morning, it was the majority leader's intention to start moving votes as quickly as we can. If we do have votes, we will break for those and come back.

I might say, incidentally, that my good friend, the distinguished Senator from Wisconsin, the ranking member of this committee, is on the Senate floor offering amendments and will be here soon. But go ahead, sir.

Did you want to make a statement Frank?

Senator **Lautenberg**. I will just say welcome to Mr. Aronson and I look forward to his testimony, Mr. Chairman.

PREPARED STATEMENT OF SENATOR D'AMATO

Senator **Leahy**. I have been just giving him a warm welcome. I will leave the record open for any other members who want to submit statements.

[The statement follows:]

Statement of Senator Alfonse M. D'Amato

Thank you, Mr. Chairman.

I want to welcome Mr. Aronson. As the new Assistant Secretary of State for Inter-American Affairs, you have inherited what is arguably the hotest seat in the State Department. I look forward to working with you on a host of issues of concern to me in Latin America.

On that note, I am sure you are aware of the legislation I am on the verge of introducing that calls for a halt of aid to the Dominican Republic until that Government sees fit to hand over Daniel Mirambeaux, a fugitive from justice.

Mirambeaux, a suspected drug dealer, is being sought in connection with the murder of a New York City police officer. I am happy to say that the State Department realized the importance of this case from the start, and has been pressing the Dominicans very hard for a resolution. Unfortunately, the Dominican Government has been adamant in its refusal to hand over Mirambeaux to U.S. law enforcement officers. As a result, I am proposing legislation that will suspend all aid that is not humanitarian until Mirambeaux is returned to the U.S. for trial.

Any light you can shed on the on-going negotiations between our two governments, Mr. Aronson, would be greatly appreciated.

Thank you, Mr. Chairman.

OPENING REMARKS OF BERNARD ARONSON

Senator **Leahy**. Go ahead, Secretary Aronson.

Mr. **Aronson**. Thank you, Mr. Chairman. Now I know how long the honeymoon for an assistant secretary lasts. It's about 8 days.

Senator **Leahy**. At least we waited till you got confirmed before we had the hearing.

Mr. **Aronson**. That's true. I appreciate that.

Thank you for this invitation to testify, and I look forward to working with you and the subcommittee.

You raised a number of issues which I would like to respond to briefly and then just take your questions and Senator Lautenberg's questions. I am not going to answer them in the order that you raised them.

CONSULTATION WITH CONGRESS

But you raised one point about consultation, and let me answer that one right up front. The answer is, yes, we want to consult with you and the committee. I think the experience with the bipartisan accord, just as you said, was a healthy and positive one. Frankly, we have been divided and embittered over these issues in Central America for too many years. The atmosphere became poisonous. We lost civility and comity and our perspective on all sides. We questioned each other's motives and even patriotism. I think one of the welcome changes in recent months between Congress and the administration is a new atmosphere and a genuine spirit of bipartisanship and mutual respect.

We have joint responsibility under the Constitution for foreign policy, and the only way we can exercise that responsibility wisely and conscientiously is if we talk to each other at the start of the process. So, we intend to do that and I hope that I can accept your offer promptly.

CENTRAL AMERICA

On the question of Central America which you highlighted, I share some of your views, but not all of them. I think fundamentally you are correct that our policy has to ally itself with the aspirations of ordinary people in Central America. And, frankly, as you noted, for too many years we did not do that. I do not think it was because we did not share those values or their hopes. I think we were preoccupied too often and disengaged. Frankly, that is a mistake we have made historically toward Latin America and the Caribbean. We have had a steady view and interest in Western Europe and even in Asia, but often have neglected this region. We cannot afford to do that anymore.

I recall in El Salvador, for instance, which you highlighted, that in 1972 there was a popular democratic movement that tried to institute reforms and democratic changes that won an election headed by Napoleon Duarte. His running mate at the time was Guillermo Ungo who now is the head of the FDR, the political front of the guerillas. They won the election. The military intervened. Duarte appealed for help, and the plea was largely unanswered.

Frankly, if we had been more engaged in 1972 in defending democracy, we might not be here today debating very hard choices about what to do to advance democracy in El Salvador.

But that experience also is a lesson for the future, Senator, and that is that in 1972 we chose the path of least resistance toward El Salvador. We were not engaged. We were not involved, and that did not make the situation better. It made it worse. And whatever else we may decide about Central America, I would submit to you today that the path of least resistance and disengagement will not make the situation better as well. We need to learn the lesson of the past when we fail to vigorously and actively defend and advance democratic values which we believe in as Americans, but we also need to learn the lesson that when the United States looks elsewhere and disengages, the forces of violence that oppose democracy that are not allied with the interests and aspirations of Central Americans advance and grow stronger.

Rather than make an extended statement, I would just say in response to your comments that we have embarked together on a new policy that was outlined in the bipartisan accord, and it is based on support and advancement of the Esquipulas agreement which, as you know, is a comprehensive agreement drawn up not by Americans, but by Central Americans. And its goals are the same goals that we are committed to: Democratization, an end to violence and aggression across borders, national reconciliation and peace. And those goals must go forward together because as the author of the Central American peace accord, Oscar Arias, said, without democracy in Central America, there will be no peace.

The only area where I think I disagree with the thrust of your remarks, Mr. Chairman, is that what we have done in Central America has made no difference and that the situation has not changed. I think if we are going to make the kind of difficult decisions that you referred to and that the subcommittee must make, we have to look at the situation in Central America as clearly and as fairly and as honestly as we can. We must say what has gone right, and we also must say what has gone wrong on both sides.

EL SALVADOR

I say that because the people of Central America, and particularly the people of El Salvador, have struggled and sacrificed and bled and died to build an authentic democracy in that country. It is ultimately a disservice to them and it is ultimately demoralizing to them to say that they have achieved nothing for their sacrifice when they have achieved much.

This is a country with grave and deep problems. We have been reminded of that just in recent weeks with the terrible violence that we have witnessed. But it is also a country that for 100 years or more was ruled by a military dictatorship in which landless peasants were little more than serfs in which democracy was not even an ideal, let alone a reality. And through their struggle, the people of El Salvador have changed their country dramatically and I believe permanently.

This is a country now that has held five elections under international supervision. They have had a peaceful transfer of power. We tend to sell their aspirations short sometimes. We say nothing has changed. They do not believe in this democracy, but every time the people of El Salvador have a chance to go out and vote, even when they are threatened, even when they face violence, they stand on voting lines and they wait for hours for that right.

I remember in the last election I read a report where a reporter went and interviewed a campesino woman, asked her why she was standing on the line this past election. She said you see that man five steps ahead of me. He is the richest man in this county. I have the same right to vote as he does, and I'm going to take it.

I think we need to pay tribute to what these people have achieved and not allow the notion to come into currency that they have achieved nothing because they have sacrificed too much for what they have built. And, frankly, this Congress and the United States Government has helped them do that, and we have done it in El Salvador in particular precisely because we have built a bipartisan consensus. It has not reflected the views of only an administration or only the Congress, but through a political struggle and debate, we have come together behind a broad policy of defending democracy, of human rights, a negotiated settlement and, hopefully, peace. I think that bipartisan consensus has helped the people of El Salvador make a difference. I hope it holds.

I agree with you. We need to debate honestly where it must go in the future. But there is never a strong constituency in the United States for foreign assistance. All people have problems. It is difficult to justify foreign aid, and it has always been the case, Senator, and I think you know that. But we are a great power and what we have done with our aid over the years——

Senator **Leahy**. I know how difficult it is. I also know there have been times in the last 8 years when I have come in here at the request of the administration, supported them, voted for them, argued for their position, and then found letters to the editors in my State, set up by the Republican National Committee, blasting me for supporting foreign aid and foreign giveaways. Some of them came right out of the White House after the White House had asked me to step up and support the White House on it. That is one of the reasons why it is a little bit difficult getting a consensus. But we digress. Please go ahead.

Mr. **Aronson**. No; it is a fair point, though. I guess I would hope that what we are doing here is talking about what this administration has done and intends to do.

Senator **Leahy**. I just mention that only because I would hope the new administration will take heed. I realize the situation we have: the good cop/bad cop ploy. The President has been very good; Lee Atwater is being very bad. But I hope on foreign policy matters the instructions will go out. If they really want the help up here, they will have to play it straight all the way through because Senator Kasten has been blasted by the Republicans for helping the administration. And we can't do that.

Senator **Kasten**. I was blasted by the Democrats.

Senator **Leahy**. Oh, you were blasted by the Democrats, OK.

I think the thing is that we have to make sure we are all singing from the same choir book. We are at a time when we are cutting domestic programs all over the place. When you have some legitimate requests for foreign aid, nothing is going to kill those requests quicker than if we think on the one hand we are being asked by the White House and the State Department to support them on legitimate questions, then, on the other hand, there are political action groups that also respond to the White House by going after us for doing that.

But please continue.

Mr. **Aronson**. Senator, I think it is a fair point. If you are making a plea for keeping partisan politics out of foreign policy, you have an ally in this assistant secretary and I believe in the Secretary of State. I would hasten to add that we do not talk politics with anybody and we do not intend to. But I am sure that this is an open hearing and the people to whom your admonition is directed will hear it, I hope.

PREPARED STATEMENT

Senator, I think in the interest of time and allowing the committee to go on with their questions, I will just yield to the subcommittee.

[The statement follows:]

STATEMENT OF BERNARD W. ARONSON

Mr. Chairman, I appreciate this opportunity to discuss our policy in Latin America and the Caribbean and our request for security assistance resources to support that policy.

The policy agenda of this Administration is centered on the belief that we must reach out to leaders and governments of Latin America and the Caribbean -- to build with them through cooperation and consultation a new partnership for the Americas -- a partnership based on mutual respect and mutual responsibility.

We are keenly aware that many obstacles hamper the development of an environment in which democratic governments can prosper and prevail.

--Drug traffickers are better armed and organized than ever; their illegal operations net an estimated $8 billion annually. The area planted in drug crops grows by some 10% a year.

--The region's foreign debt has risen to over $400 billion, up from $330 billion when the region-wide economic shocks were experienced in 1982. A market naturally oriented toward the United States but burdened with debt is less able to pay for the exports of American farms and factories.

--Environmental losses from burning away the Amazon rain forest last year are reported to add up to 80,000 square miles (larger than the combined area of Denmark, Belgium, Austria, and Switzerland.)

--Despite important new peace initiatives, political extremism, terrorism, and armed conflicts persist in Central America.

--Armed conflict and criminal violence are common in some Latin American countries. Murder is the leading cause of death for male adults (age 18-40) in Colombia, where the government estimates some 140 private groups engage in murder.

--Inequities in income distribution and widespread poverty also jeopardize democracy. These problems have long plagued the region but have been exacerbated by low growth rates. Per capita income in Latin America and the Caribbean has declined almost 7 percent in the period 1981-88 in stark contrast to the 1960s and 1970's when per capita income as growing 3 to 3.5 percent a year.

Still, there are reasons for optimism:

-- First, if democracy can be sustained, the stability and predictability so generated will have positive effects on economic performance at least as large as those already beginning to take place with regard to human rights and political participation.

-- Second, the hemisphere is developing new models of economic -- as well as democratic success -- as farsighted leaders from Colombia to Costa Rica institute far-reaching economic reforms.

-- Third, the United States and Latin America are developing a new ability to cooperate on the basis of shared responsibility and a new partnership for progress.

This Administration intends to join our Latin American and Caribbean neighbors to advance our mutual interests in a spirit of true hemispheric cooperation. Our goal is to create an environment where democracy and prosperity reign. We recognize that such a climate is unrealistic as long as our allies in the region are not able to provide for both their own security and the basic economic needs of their people.

The March 1989 Bipartisan Accord between the Administration and the leaders of both parties in the Congress is focused on Central America but can contribute to peace and democracy in the region as a whole. The accord commits us to work with Latin America's democratic leaders to translate the bright promise of the Esquipulas and Tesoro Beach Agreements into concrete realities on the ground. The accord unites us to help ensure that the promises of Esquipulas for democracy, peace, and security are not only kept but verified and that the Nicaraguan people's right to be free is ensured.

Bipartisan Executive-Legislative cooperation should not, of course, be limited to Central America. The President and Secretary of State will continue to consult with Congress and will increasingly seek out the leaders of Latin America, through the OAS and elsewhere, as they design and implement policies in the hemisphere as a whole. As Secretary Baker put it in Atlanta:

"If we are together engaged in a joint venture North and South to advance and defend democracy, then we each must do our part -- collectively where possible -- to create new mechanisms and strengthen existing ones to defend human rights, to guarantee the integrity of elections, and to establish sanctions against those who threaten democratically-elected governments through violence or through coups."

However, in relation to the magnitude of these challenges and their importance to our interests, United States assistance for Latin America and the Caribbean is very modest. Like many elements of our federal budget, foreign assistance levels are squeezed.

In FY 1988, the bilateral assistance budget for Latin America and the Caribbean was the lowest since 1983. It included $1.2 billion in bilateral economic aid for development assistance, economic support funds (ESF), PL-480, and narcotics control activities -- and $143.9 million in military aid -- including international military education and training (IMET) and military assistance program (MAP) funds. Total economic and military assistance for Latin America in 1988 was $1.345 billion -- 10.09% of the worldwide assistance total.

In FY 1989, available resources increased slightly: estimated obligations at this time amount to $1.259 billion in economic and $164.9 million in military assistance for a total of $1.423 billion -- 10.95% of worldwide funding. Even so, increased earmarking required the complete elimination of military or economic support programs in several countries.

For FY 1990, we are requesting $1.204 billion in economic aid and $230.0 million for military aid, totaling $1.434 billion, or 9.76% of requested worldwide assistance.

To help you evaluate our FY 1990 requests, I would like to review major political and economic trends affecting United States interests in the region, consider the fundamental principles (support of democracy, the war against illegal narcotics, and the search for peace, security, and development) that underlie our foreign assistance requests in the region and, finally, focus on the need for improved multinational cooperation and on a number of specific cases where our approach is evolving either in response to changed circumstances or new opportunities.

POLITICAL TRENDS

The democratic transitions of the past decade in Latin America and the Caribbean have been dramatic. While these transitions have been the product of the political will of the people in each country, the constant strong bipartisan support of the United States has been an important contributing factor.

Through the joint efforts of the Executive and the Congress, our message has been clear and constant:

-- We support democratic forces against repression or threats from those who would undermine electoral processes.

-- We will not acquiesce in military takeovers of democratically-elected governments.

-- We will support democratic governments threatened by insurgencies and will insist on respect for human rights.

The strength of this message has been its constancy. We send the same message to our friends and to our adversaries.

The democratic institutions emerging in the region are still frequently strained by economic crises that erode support for democracy. The transition from authoritarian to democratic rule generated heightened expectations of improved economic as well as political conditions. Democratic leaders have been caught between the proverbial rock-and-hard place as they have sought to adopt responsible, growth-oriented policy reforms. Some have achieved notable successes, as in Colombia, Uruguay, Chile and Costa Rica. But all too often the results have ranged from failure to adopt essential reforms -- thus prolonging the economic misery -- to inadequately supported attempts to adopt the necessary reforms -- thus provoking a popular backlash against the reformers. The uneven results have raised doubts about the generally moderate policies of the first generation of democratic leaders.

Several of the democratic governments of the region face active or potential challenges from insurgents, criminals, or other armed groups. Such conditions further constrain their ability to undertake democratic reforms or to fully institutionalize civilian control over the military.

Even in the face of these difficulties, however, civilian and military leaders have both shown considerable adaptability. In Guatemala, the elected government remains under assault from a reduced but, nonetheless, lethal insurgency and enemies of the democratic process have attempted failed coups. The military command has defended civilian rule and expressed a commitment to human rights. In El Salvador, military leaders continue to support democratic development. Indeed, the military fully supported the democratic process in the March 19 presidential election, the second such election since 1979. In Peru, there has been no coup despite deep economic troubles and a widening insurgency. In Argentina, the elected government has overcome challenges of several instances of military indiscipline and insubordination. Meanwhile, in January armed ultra-leftists attacked an army base, causing concerns that Argentine democracy could be threatened by extremists from the left as well as from the right. As the newly-elected president of Argentina assumes office, we can point to progress made since 1983 in establishing civilian control of the military, while noting that this is an evolving process as the Argentine military's role changes and seeks definition in a modern democracy.

The democratic trend, in fact, still shows signs of deepening. The power of democratic aspirations was evident in the conduct of the plebiscite in Chile last fall and the successfully conducted election in Paraguay this year. Democratic practice often fails the ideal, but cases of systematic and pervasive failure are fewer, and when they do occur are obvious to all. Whether the election is the one promised in Nicaragua next February or others scheduled elsewhere in the region in the upcoming months, the United States and the hemispheric community of democratic nations have a major stake in the application of universal standards of openness and fairness.

Under these circumstances, unwavering United States and international support for democratic civilian government is critical, both to avoid potential reversals of the democratic gains already in place and to promote further progress. The security and economic assistance programs proposed for FY 1990 are an integral part of that support.

ECONOMIC TRENDS

After growing rapidly in the 1960s and 1970s, Latin America has experienced painfully low economic growth during this decade: between 1980 and 1983 gross domestic product fell by 1.0% annually in real terms, then rose by 3.4% annually between 1983 and 1987 before slipping to a growth rate of less than 1% in 1988.

Inappropriate economic policies have been the main cause of this poor economic performance. Despite some progress, statist, inward-looking policies have lowered investor confidence at home and abroad. Domestic savings and investment have dried up, and capital flight exceeds commercial bank debt in some countries. Growth has also been hindered by continued low prices for many key exports and the region's heavy external debt burden -- at year end 1988, $401 billion, over 40% of the total debt held by all developing countries.

United States debt strategy continues to be based on renewed growth, with increased commercial and official lending to give debtor countries support needed for politically difficult economic reforms, the essential condition for resuming growth. But commercial banks have reduced their exposure in the region, and debt service payments now exceed new lending. Reversing this negative net resource transfer is an essential ingredient of a strategy to bring sustainable growth to the region.

Low growth and heavy debt service burdens imperil fragile democracies in the region as key countries in the region conduct presidential elections this year. Latin leaders, individually and collectively through the Group of Eight and other associations, have pushed for debt relief to give debtors more "breathing space" and support for essential economic reforms.

We will need to encourage all governments of the region to undertake economic policy reform more rapidly if there is to be any hope that they can grow and cope with their staggering debt burden. The ideas put forward by Treasury Secretary Brady on March 10 before the Bretton Woods Committee, and recently endorsed by the IMF and World Bank, are designed to meet this need. By strengthening our debt strategy through an emphasis on debt and debt-service reduction as a complement to new lending, we believe that more effective external financial support can be mobilized behind debtor countries' efforts to reform their economies and achieve lasting growth.

The debt strategy which ultimately emerges after concrete implementation of the ideas put forward by Secretary Brady will have an important bearing on the ultimate economic success of the debtor countries. Just as important, however, is the need to keep the United States and other markets open. We can hardly press the Latins to open their economies and encourage export-led growth and then shut lucrative markets to them.

The most important element, however, of any economic recovery plan is the commitment of the countries themselves. Ultimately, economic and political reform cannot be imposed from outside; the benefits of such reforms must be seen by that government itself, and appreciated by the people, for these reforms to be undertaken and pursued in the long-term.

SUPPORT FOR DEMOCRACY

Over the past decade, the security of the United States and the security of all free countries of this hemisphere have benefited greatly from the trend toward democracy. Though further progress is required, respect for human rights is improving in the non-Marxist and non-dictatorial states of Latin America. The marked reduction in the number of human rights abuses in recent years parallels the spread and consolidation of democracy: where democratic government has taken root, the human rights situation is changing for the better. Castro's Cuba presents a striking contrast with the hemispheric trend towards democracy -- Cuba remains one of the hemisphere's worst human rights violators and rejects political and economic reform, despite its failing economy.

The democratic trend not only accords with our deepest values but also serves our national interest. We enjoy the most constructive long-term relationships with countries whose government is founded on the consent of the governed. Our ability to cooperate increases in direct proportion to the values and institutions on which we and our partners find we can agree.

United States security assistance plays an important role in this process by helping military institutions develop confidence in democratic systems and by increasing military loyalty to the civilian and constitutional authorities with whom we are cooperating.

NARCOTICS AND NARCOTERRORISM

Economic difficulties are not the only challenge to regional democracy. Narcotics traffickers have the resources and often the will to undermine the stability and integrity of these governments. Terrorists, often in league with narcotics traffickers, prey on the poor of the region. The United States must work with other nation of the hemisphere to develop creative new ways to attack the powerful criminal organizations, enriched by the narcotics trade.

Narcotics trafficking based in the Andes seriously threatens the stability of the governments of the region and the well-being of families and neighborhoods across the U.S. The President, Congress, and the public are rightfully demanding that we do much more.

The current, imaginative Colombian military campaign against combined Revolutionary Armed Forces of Colombia (FARC)/trafficker bases serves as a model for what we hope will guide efforts in other countries by 1990. We are recognizing these successes with increased military assistance to Colombia. From $3.0 million MAP in FY 1988, the level increased to $6.0 million in the current year, and we are requesting $20 million in MAP for FY 1990.

Peru and Bolivia may be able to apply useful lessons from Colombia's efforts. We are all in the anti-narcotics fight together. The U.S. should be prepared to provide the resources, including training, material and equipment, necessary for those countries to make an all-out commitment against the traffickers. Bolivia recently adopted sweeping anti-narcotics legislation and exceeded its 1988 coca eradication targets. We are concerned, however, about the pace of Bolivia's 1989 eradication efforts. Peru, the world's largest coca cultivator, was able in 1988 to destroy over 5,000 hectares (12,000 acres) of coca. However, security concerns in the Upper Huallaga Valley have seriously impeded U.S. and Peruvian efforts there since February 1989. The Peruvian Government recently conducted a test of aerially-applied anti-coca herbicides, and test results should be available in the near future.

We need to consider how to support long-term economic development that helps governments of the region deal with these serious economic and social problems which invite the growth of domestic insurgencies and the continued illegal cultivation of coca. Creative economic ideas may allow us to achieve our anti-narcotics objectives and create stability and economic growth in the region. For example, if resources permit, we should consider increasing the levels of development assistance and PL-480 food aid to Peru and Bolivia. By promoting alternative income opportunities in the agricultural sector and elsewhere, we may be able to convince peasant farmers to turn to alternative products.

In the Caribbean, small and ill-equipped police, military forces, and judiciaries face increasing numbers of traffickers with seemingly unlimited resources. Jamaica, the Bahamas, Haiti, and the Dominican Republic are significant transshipment points for narcotics from South America. Jamaica, itself a major producer of marijuana, has made major strides in eradication. Other non-Marxist Caribbean governments likewise cooperate fully with us in combatting narcotics trafficking. Our operational cooperation with the Bahamas surpasses that with any other government. Our aid must help Caribbean governments increase the level and effectiveness of their anti-narcotics activities.

Mexico remains the single largest source of heroin for the United States, the second largest source of marijuana, and a transit point for cocaine. President Carlos Salinas has made narcotics control a national priority. On April 8, Mexican authorities arrested narcotics kingpin Miguel Angel Felix Gallardo in Guadalajara, Mexico. Perhaps the most notorious drug trafficker in Mexico, he had been responsible for the shipment of large amounts of cocaine and marijuana to the U.S. His capture and the related arrests of corrupt police officials demonstrate the seriousness with which the Salinas Administration is addressing the drug problem in Mexico.

Mexico has expanded the scope of its opium and marijuana eradication programs and is taking steps to improve operational efficiency. We are prepared to cooperate with what we expect will be a steadily improving Mexican anti-narcotics program. The U.S. and Mexican Attorneys General earlier this year had positive, constructive discussions on ways to improve bilateral law enforcement cooperation.

DEVELOPMENT AND DEFENSE IN CENTRAL AMERICA

The challenge facing the U.S. in Central America is to be consistent and effective in support of human rights, development, and the preservation of freedom.

Our efforts in Central America have moved forward dramatically. On March 24, we signed the Bipartisan Accord between the Executive and Congress which provides the framework for our policy. In carrying forth the Accord, we have conferred with the Presidents of Costa Rica, El Salvador, Guatemala and Honduras as well as Venezuelan President Carlos Andres Perez. All have strongly supported our approach, which in turn supports the goals of the Esquipulas peace plan and the Tesoro Beach agreement. We have also conferred with the Secretaries General of the UN and OAS and indicated our support for their work to bring about democracy, peace, respect for human rights and an end to subversion in Central America. We continue to work closely with the Central American democracies and to support their strong efforts to see Nicaragua fulfill its commitments to democratize and end its support for subversion.

We believe strongly that the Soviet Union has an obligation to act constructively toward Central America in accord with its professed new approach to regional conflicts. We have been in contact with the Soviet Government at the most senior levels to reiterate our view that the Soviet Union could greatly contribute to the achievement of peace and democracy in Central America. But as long as the Governments of Cuba and Nicaragua -- both of which are major beneficiaries of Soviet assistance -- continue to promote destabilization and guerrilla warfare in the region, US-Soviet relations will necessarily be affected. We have noted the General Secretary's remarks in Cuba, renouncing support for the export of revolution. And we note the Soviet Union's declared support for the Esquipulas agreement which prohibits support to insurgent forces. We note the continued Soviet-bloc and Cuban support for the FMLN in El Salvador as shown by the recent discovery of a large cache of Soviet-design weapons and Cuban-manufactured ammunition in San Salvador last month.

We have welcomed the nonpartisan and multinational effort of the International Commission for Central American Recovery and Development (Sanford Commission) to explore new policy options for economic recovery and development in Central America.

We welcome the Commission's recommendation that aid and other relations be based on compliance with Esquipulas, for we believe that any plan for the region as a whole requires that democracy and security become realities rather than promises. It is also important that the Commission recognize another form of conditionality -- that based on economic performance.

We concur with the Commission's encouragement of market-based, export-led economic growth. Our assistance aims to support such growth. We believe, however, that the Commission's expectations for regional integration may be higher than warranted given fundamental, structural differences in the Central American economies. Moreover, its food security proposals lean to protectionism and its emphasis on regional integration could detract from the need to expand and diversify exports. All in all, however, the Commission has provided a thoughtful analysis and made a number of useful recommendations.

You will recall that the basic considerations underlying our own assistance policy toward Central America were formulated in 1983-84 by the National Bipartisan Commission on Central America (the Kissinger Commission). The Kissinger Commission's bipartisan focus on democratization, human rights, economic stabilization and structural transformation, and spreading the benefits of economic growth has been the organizing principle of U.S. policy ever since.

We were pleased to note that the recently released report of the House Foreign Affairs Committee's Task Force on Foreign Assistance concluded that these original Kissinger Commission goals, supplemented by a clear commitment to environmental sustainability, should be our principal foreign assistance goals worldwide.

Our assistance is an important reason that most Central American countries are more democratic and respectful of human rights than they were 10 years ago. Democracy continues to be consolidated in El Salvador, Guatemala, and Honduras. In Costa Rica, honest fair elections continue a long tradition. Indeed, this year Costa Rica celebrates 100 years of democracy.

U.S. assistance also plays a critical role in helping the Central American democracies cushion the short-term economic pain which often precedes the longer-term economic gains realized through policy reform. In several instances, our aid has facilitated sound adjustment measures to establish the basis for self-sustaining growth. Growth in nontraditional exports also demonstrates that the region can have a sound economic future once the Esquipulas peace process succeeds in removing the obstacles created by political and physical insecurity.

The Costa Rican Case.

Let me take a moment to provide some detail on a success story -- how, through adopting economic policy reforms cushioned by our Economic Support Funds (ESF), one Central American country was able to reverse a severe economic decline.

In the early 1980s, Costa Rica was hit by a severe recession. The U.S. aid response was designed in part to help Costa Rica reform its economy and set it on the path to self-sustaining, long-term growth. Due to our support and the Costa Rican Government's own willingness to reform, progress has been impressive.

The Costa Rican Government has slashed its fiscal deficit from 13.7% of gross domestic product in 1981 to 0.6% in 1988, committed itself to privatization of state-owned companies, liberalized the banking and credit system, and maintained a realistic exchange rate. Inflation fell from 90% in 1982 to a more manageable 21% in 1988. Similarly, unemployment has come down from 9.5% in 1982 to 5.6% in 1988. Most impressive of all has been the phenomenal growth in nontraditional exports to countries outside Central America, which jumped from $128 million in 1983 to $471 million in 1988, an increase of 268% in just 5 years. A major reason for the rapid rise in nontraditional exports has been the Caribbean Basin Initiative (CBI) and related legislation.

As a result of its aid-assisted policy reforms, the Costa Rican economy in the last 6 years has been growing at an average annual rate of 4.3% compared with an average yearly decline of 2.9% during 1980-82. The reforms have also led to agreements with the International Monetary Fund (IMF) and the World Bank and will likely result in greater aid from other donors.

External debt is the Achilles' heel of the Costa Rican economy. Total external debt is $4.4 billion, one of the world's highest per capita level. Costa Rica is negotiating a debt reduction plan with its commercial banks within the Brady guidelines. We believe Costa Rica should be an early beneficiary of the new U.S. debt strategy.

MULTINATIONAL COOPERATION

Consultative Groups

For several years we have encouraged the World Bank and the IMF to establish consultative groups (CG) for countries in the Caribbean and Central America. The Caribbean Group for Cooperation in Economic Development (CGCED) has received our support. CGs were established in June 1988 for Costa Rica, in October 1988 for Honduras, and in March 1989 for Guatemala. The goals of a consultative group are: to encourage greater donor cooperation and coordination, to develop a better organized and more visible list of priority projects, and to review overall structural adjustment process and management of debt issues in the country. Looking at the one country, Costa Rica, for which we have more than a half-year experience, we are encouraged by preliminary results. These include:

--The completion of a second World Bank structural adjustment loan in December;

--Work on a possible new IMF standby to replace the one expiring early in March;

--The development of a list of priority projects for donor financing;

--Work on a transportation sector loan;

--Further discussion by the Bank Advisory Committee on ways to mitigate Costa Rica's debt burden, including consideration of the possible use of U.S. assistance to finance a Costa Rican buy back of debt;

--An overall understanding not only by the World Bank, IMF, and the United States but also by Japan (which has promised funds to Costa Rica, Canada, and the European countries) to work from the same data and analytical framework.

The Organization of American States

The Organization of American States (OAS) can play a key role in ensuring successful cooperation in the hemisphere.

--Because both the U.S. and the Latin American and Caribbean countries belong, the OAS is the logical locus for debate on topics of importance to the hemisphere.

--On May 17, the OAS Foreign Ministers agreed to send a three-person Commission of Foreign Ministers (assisted by the OAS Secretary General) with a mandate to arrange a democratic transfer of power in Panama. On June 6, the Commission's mandate was extended until July 19. The U.S. strongly supports this multilateral action taken in an effort to support democracy in Panama.

Historically, the OAS has had a strong record of support for democracy, human rights, and the peaceful settlement of disputes. Recently, the OAS has become more active on human rights, drugs, and technical assistance. OAS Secretary General Baena Soares was named co-verifier (along with Cardinal Obando y Bravo) of the Sapoa accords in Nicaragua.

The OAS has the potential to contribute to peace in Central America under the Esquipulas and Sapoa agreements. The Tesoro Beach agreement explicitly asks for OAS and UN assistance in verifying both democratization in Nicaragua and the voluntary reintegration, repatriation, or relocation of Nicaraguan Resistance forces. OAS Secretary General Baena Soares is working to have observers in Nicaragua throughout the elections process. The OAS Human Rights Commission had a significant role in the recent release of some 1800 former national guard members held prisoner in Nicaragua and has recently highlighted the human rights abuses that took place in Panama in connection with the elections which were later annulled by General Noriega.

The OAS will be able to exert its positive regional influence, however, only if the U.S. and other OAS members provide the necessary support and allow it to be effective by giving it the attention and financial resources it needs.

The Caribbean Basin Initiative

A constructive and bipartisan policy, the Caribbean Basin Initiative (CBI) supports political stability in the Caribbean Basin by helping countries raise their foreign exchange earnings, diversify their economies, and employ their people. The CBI has spurred economic diversification in the region by providing the opportunity to increase exports of nontraditional goods such as apparel, seafood, and winter produce. In the first 5 years of the CBI, nontraditional exports to the United States grew over 70% in real terms to over $3.5 billion. In 1988, for the first time, the region's nontraditional exports to the United States were larger than the traditional ones, such as sugar and coffee, although the high U.S. content of many non-traditional exports means the net foreign exchange earnings from traditional exports may still be larger.

The CBI does not guarantee economic growth and greater exports; it enhances the conditions and incentives for growth. Some countries in the region have done particularly well in using the CBI. Since the CBI began, Jamaica's nontraditional exports to the United States have increased by 147%, Costa Rica's by 254%, the Dominican Republic's by 195%. At the same time, lower oil prices and tighter sugar quotas have meant that total exports to the United States have declined some 30% since the CBI began.

The original CBI does, however, have some shortcomings. For example, some products important to the region are excluded from duty-free treatment. We strongly endorse efforts underway in Congress to enhance the CBI. We want to continue to work closely with the Congress on such legislation, including the bills by Representative Sam Gibbons and Representative George Crockett.

SPECIAL SITUATIONS AND OPPORTUNITIES

The Argentine Military Aid Program

We have supported military professionalism in Argentina while making clear to all concerned, including the Argentine armed forces, that our cooperation depends on military respect for constitutional civilian leadership and a commitment to support democratic institutions. Argentina faces the greatest economic crisis of its history and is approaching an important political transition, yet there is no apparent inclination among the populace or within the armed forces to respond by imposing a military government, a phenomena which has often occurred during similar circumstances in the past.

Over the past several years at the request of President Alfonsin, we have developed a careful, modest program of defense cooperation. All aspects are coordinated through Argentina's civilian-run Ministry of Defense. Initially, we concentrated on exchanges and training to help the Argentine government reorient the military from politics toward professional concerns.

This first phase of our plan to improve military relations worked well, although the Government of Argentina has been constrained by budget limitations in its ability to make military equipment purchases. To demonstrate our continuing interest in supporting civilian leaders' desire to facilitate the professional development of the Argentine military, we have proposed an FMSF (foreign military sales financing) grant program of $2 million in the FY 1990 budget. This program was developed in full cooperation with Argentina's civilian Ministry of Defense and the military services. An initial goal of this program was to help the Argentine Army undertake the long-delayed $13 million refurbishment of its U.S.-made transport helicopters and armored personnel carriers. It will fulfill important and legitimate army needs with a relatively modest investment and do so without threatening regional stability. President Alfonsin personally sought our support for this refurbishment program.

Haiti

Our policy in Haiti has been to encourage transition to an elected-civilian government, respect for human rights, credible development programs, and cooperation on narcotics matters. As Deputy Assistant Secretary Richard Melton noted in his testimony before the House Subcommittee on Western Hemisphere Affairs on March 14, we are encouraged by the progress the Avril government has made on this agenda since assuming power in September 1988.

- President Avril surmounted the early April coup attempt which followed his removal of four officers for alleged corruption and involvement in the drug trade. Although the Government of Haiti had to resort to force to quell the coup, we believe that general Avril is gaining increasing support for his commitment to reform.

- During the turbulence surrounding the attempted coup, the majority of the members of the independent Provisional Election Council was sworn in; all have now been invested. The Avril Government has spoken out in favor of their efforts and approved the Council's provisional budget request.
- Human rights abuses continue in Haiti, but the government has made progress in stemming the cycle of political violence that has plagued Haiti since the fall of the Duvalier regime in February 1986.
- On narcotics matters, the Government of Haiti has taken vigorous actions against traffickers in that country and has cooperated fully with U.S. authorities.
- Progress on the economic front has been less noteworthy, but the Government of Haiti is operating under severely restrictive financial constraints.

Much more remains to be done, and we want to encourage these favorable trends. As Ambassador Melton noted in his March 14 testimony, we are developing our proposal for a $12 million monetized PL-480 Title II program with the Government of Haiti and intend to put special emphasis on job creation programs in our negotiations with that government on how the proceeds of this program are to be utilized. We will continue to work closely with the Congress on our response to this evolving situation.

Guyana

The Government of Guyana, during the past 3 years, has strengthened friendly relations with the U.S. and other Western countries. It has also initiated several market-oriented economic reforms. We believe it is in our interest to encourage these developments.

The United States has provided food under PL-480 totaling almost $20 million since fiscal year 1986. The Government of Guyana has negotiated a plan with the IMF and others to clear longstanding arrears to multilateral institutions and to reschedule obligations to the United States and other bilateral donors. Implementation of the plan is contingent upon a substantial influx of foreign assistance. We continue to explore appropriate ways in which the U.S. Government can participate once Guyana pays its arrears. If this program comes together as we hope it will, we anticipate providing a small amount of ESF to the Government of Guyana as our contribution to this multinational effort.

Human Rights in El Salvador

During the recent elections in El Salvador, we witnessed again the determination of ordinary people to vote to choose their leaders even when they had to risk their lives to cast their ballots.

President Cristiani, in his recent visit to the United States, told the Congress and the Administration of his commitment to human rights observance and follow-up by his government and the Salvadoran armed forces. Cristiani demonstrated his dedication to these goals when he moved decisively in early April to help counter a release order for suspects in the infamous kidnapping case. Cristiani's positive, personal involvement in this case helped avoid a major judicial setback.

All credible human rights organizations in El Salvador, including the Catholic Church's Tutela Legal, agree that politically-motivated violence has diminished significantly over the past decade. The number of politically-motivated deaths reported in the Salvadoran press averaged 20 per month during 1988. This compares with a monthly average of 23 in 1987, 22 in 1986, 28 in 1985, 64 in 1984, 140 in 1983, 219 in 1982, 444 in 1981, and 750 in 1980. Still, citation of this trend should not be taken to mean that this Administration is satisfied with the current level of deaths. We are not. We will not be satisfied until there are none.

Despite this sustained improvement, progress in bringing to justice the perpetrators of some of El Salvador's major human rights cases has not kept pace. Our assistance is in part geared to supporting the government's efforts to transform an archaic and inefficient judicial system into one in which the same standard of law is equally available and applicable to all. This will require a sustained effort over a long period of time, working with police, prosecutors, judges and the Salvadoran Legislative Assembly, which is constitutionally charged with reviewing and changing existing laws.

In recent times, we have witnessed some disturbing events, such as the September 1988 killings near San Sebastian, El Salvador. In his early February trip to El Salvador, Vice President Quayle indicated to the Salvadorans that we expect a better human rights performance and that we intend to watch the situation closely. In March, a Salvadoran armed forces honor board, formed to investigate the San Sebastian killings, found culpability on the part of 9 Salvadoran military personnel, including two officers. The 9 were dismissed from the army and are presently awaiting trial in civilian courts.

Our economic and security assistance is designed to support this transformation. The judicial reform project facilitates long-overdue changes in the handling of criminal cases, court administration, and a variety of other areas of law. Economic assistance is designed to shore up the economy while the Salvadoran people continue their resistance against violent opposition to democracy. Our military assistance supports efforts to better professionalize military forces, including their embrace of respect for human rights in a framework of loyalty to constitutional civil authority.

Chile

Chile is on track for its December 14, 1989 general elections, the first to be held in 19 years. As in the 1988 plebiscite, the United States will continue to urge the Government of Chile to assure that open and clean elections are conducted in an atmosphere conducive to democratic decision-making. The successful October 5, 1988 plebiscite is a source of intense national pride to all sectors of Chilean society because it was seen as a strong reaffirmation of their democratic vocation. The armed forces are particularly proud of having presided over an honest vote. We in the Executive and you in the Congress will both be watching upcoming developments closely.

Administration of Justice

Throughout Latin America, justice systems are starved for resources, both human and material. All too often these systems present an obstacle to -- rather than a foundation for -- effective democracy. By focusing on assistance to the administration of justice, we hope to reinforce the institutional capacity for democracy.

For example, after an elected government took office in Guatemala in 1986, administration-of-justice projects have provided training for judges and police investigators as well as technical assistance for legal library and data base development and analysis.

Separate projects administered respectively by the Latin American Institute for the Prevention of Crime and Treatment of Offenders (ILANUD), a UN affiliate in San Jose, and by Harvard law school, have enabled the Guatemalan judiciary to embark on a multiyear project targeting specific problems, such as the need for administrative reorganization, improving access to legal information, and improving the handling of criminal cases.

At the same time, the International Criminal Investigative Training Assistance Program (ICITAP) of the U.S. Department of Justice has operated in Guatemala under policy guidance from the Department of State. ICITAP began by training police investigators in modern investigative techniques but, at the request of the Guatemalan Supreme Court, soon began offering similar training at a less technical level to judges, who under Guatemalan legal procedure have responsibility for directing investigations.

ICITAP training has already been credited with successful resolution of a number of highly-publicized cases in Guatemala, among them the kidnap-murder of two University of San Carlos students by Quetzaltenango police officers in November 1987 and the murder of three Chinese in June 1987. ICITAP has also assisted the National Police with the establishment of an Office of Professional Responsibility to investigate allegations of unprofessional conduct by officers. At the present time, the office is screening approximately 50 cases per month, with 20-30 of them referred to the civilian courts for handling.

Paraguay

General Andres Rodriquez has promised to bring democracy and respect for human rights to Paraguay since the day in early February when he deposed long-time strongman Alfredo Stroessner. As provisional president for three months, Andres Rodriguez began the transition with some positive actions: presidential and congressional candidates were allowed to campaign freely; restrictions on the media and political activity were relaxed, thus improving the human rights atmosphere; the multiple exchange rate system was eliminated, giving economic fair play a boost; and governmental support was given to our marijuana spraying program. These actions and promises of additional reforms helped Rodriguez win the presidency with over 70 percent of the vote in a basically honest election on May 1.

Nonetheless, establishing the pluralistic institutions required to sustain democracy in Paraguay poses difficult long-term challenges since that country has no democratic tradition. The elections on May 1 were but the first step. Prospects for real and enduring change must be tested over time. We look forward to working together with other nations interested in the welfare of democracy to encourage a successful transition in Paraguay. In this regard, we also wish to work together with the Congress in order to help Paraguay turn its promise into reality.

Panama

Panama, a longstanding ally and friend of the United States, is almost 2 years into a prolonged political crisis. This crisis has its roots in 20 years of military domination of Panamanian political life. It is important to recall that the origin of the current crisis is not based on actions of the United States. Rather the crisis is the result of the reaction of a broad spectrum of the Panamanian people to the accusations of assassination, drug trafficking, and corruption leveled against Noriega.

In the course of the crisis, the U.S. has taken a series of measures to demonstrate our solidarity with the efforts of the Panamanian people to oppose what was in effect a thinly-disguised military coup by General Noriega last year.

The Administration remains firmly committed to the restoration of a genuine civilian democracy in Panama. The May 7 presidential and legislative elections demonstrated the desire of the Panamanian people to find a political solution to the crisis and their strong rejection of the Noriega regime and its domination of the country's political life. Events in Panama since the overwhelming electoral victory of the opposition have been characterized by continued disregard by the Noriega regime of basic political freedoms, the suppression by force of freedom of expression, and the intimidation of political opponents.

This political repudiation which the regime suffered at the polls has been compounded by international repudiation of the regime's conduct and its increasing international isolation. The Organization of American States, in an historic decision of the Ministers of Foreign Affairs on May 17, reached a consensus which denounced Noriega and dispatched a three-member mission to Panama to assist in resolving the crisis through a rapid and democratic transfer of power. The mandate of this mission was extended on June 6, with the request that it return to Panama to continue its activities and then report to the MFM on July 19.

Our position with respect to OAS action was clearly stated by Deputy Secretary Eagleburger on June 6:

> "My Government believes as it has long believed that while Noriega remains in power, he is a permanent obstacle to political reconciliation." There can be no normalization, no accommodation, while Noriega remains in control. Our message is clear: the U.S. is not against Panama or the Panama Defense Forces, which have a role to play as a professional military institution. We are not interested in vengeance or in imposing our will on Panama. We remain committed to fulfilling our obligations and asserting our rights under the Panama Canal Treaties. But we are firmly committed to supporting the Panamanian people in establishing democratic processes in their country. To this end we have joined with other members of the OAS to help bring about a transfer of power and a transfer to democracy. We will continue to take all steps reasonably calculated to achieve that end."

Rigidities Caused by Earmarking

There is a final area that I would like to touch upon -- that of earmarking our assistance programs. In our view, extensive earmarking, combined with constraints on overall funding levels, greatly reduces the flexibility of our assistance programs in several ways:

--When cuts must be made, they fall entirely on unearmarked programs. These unearmarked programs serve U.S. interests no less than those that are specifically legislated. But efforts to protect one good program through earmarking often work inadvertently to destroy others when overall levels decrease.

--Countries receiving earmarks often view them as an "entitlement," which actually can make them less amenable to entering into serious discussions regarding economic policy reform.

--Coordination with international financial institutions and response to political changes demand a flexible U.S. Government response which earmarking largely bars.

Let me relate a specific example of the type of problem earmarking often causes. The example relates to the narcoterrorism earmark in the Anti-Drug Abuse Act of 1988. The earmark was written in such a way as to make planning for ESF spending especially difficult and inflexible. The law earmarked (but did not appropriate) $5 million to provide protection for judges, government officials, and the press. It also stipulated that these funds should remain available until expended.

The earmark became yet another claim against the previously appropriated ESF account, already heavily earmarked and cut from the presentation level. The earmark required us to withhold money from programs (including strengthening of democracy initiatives) for which plans had been made while we worked with the Colombian Government to develop a different program in a new area and of unknown dimensions. Indeed, we are only now getting concrete indications from the Colombian Government of specific needs and seeing how a coherent program could be developed.

We are pleased to see that the earmark issue was discussed in the House Foreign Affairs Committee task force report on foreign assistance. The report cited, correctly in our view, the need for increased flexibility in the implementation of our assistance programs. It suggested that a new economic cooperation act should avoid most of the restrictions, directives, and earmarks of the current act. We are also pleased that this subcommittee has sought to limit earmarking in the past.

CONCLUSION

We look forward to expanding the close working relationship with the Congress that has been initiated with the Bipartisan Accord on Central America, as we refine and support our overall hemispheric policy. What we need is a mechanism -- a genuine consultative process -- that gives flexibility to both the Administration and the Congress to meet changing circumstances. As the Executive and the Congress agreed in formulating the Bipartisan Accord, restrictive legislative provisions that micromanage our conduct of foreign policy are counterproductive to the interests of both the Executive and Legislative branches, and, more significantly, to the conduct of U.S. foreign policy.

Mr Chairman, we will work with you in the spirit that was developed in the formulation of the Bipartisan Accord. You will find us willing to consult closely and to keep the Congress fully and currently informed of events and issues in the region. We will not always agree, nor should we. That is the essence of our democratic system. But you can count on us to approach even those issues on which we have strong disagreements on a straightforward basis, with a willingness to listen, and with a view towards finding an approach that will best serve our mutual determination to promote U.S. interests and values.

Forms of Bilateral Aid

Development assistance is project support used for education, management training, and some small business development. It also funds development of the private sector and agriculture; protection of the natural resource base; and health and nutrition programs. One of its basic purposes is to increase the incomes of poor rural families to meet their basic needs.

Food for Peace, commonly called PL-480, provides food from U.S. Department of Agriculture stockpiles to those nations that are too poor to feed all of their people adequately. The food provided alleviates hunger and malnutrition and improves health. One of our most successful programs, it also generates local currency in some countries that is recycled to fund agricultural development, infrastructure improvements, rural education, and health programs.

The economic support fund (ESF) advances U.S. economic interests by offering grant or loan economic assistance. These funds are used primarily to provide quick-disbursing balance-of-payments support to allow time for local economic and financial adjustments to take effect and to minimize the adverse short-term consequences of these adjustments on vulnerable segments of the population.

Through the provision of international narcotics control assistance, the U.S. Government works with drug-producing and trafficking countries to encourage cooperation in eradicating crops at their source, interdicting narcotics as they are trafficked, and reducing the demand for drugs in foreign countries.

The foreign military sales financing program (FMSF) provides grant funds for procurement of defense articles and services to help strengthen defense capabilities. Without grant aid, many countries in this hemisphere would have to divert scarce domestic resources from economic development efforts in order to purchase military training and equipment. FMSF replaces military assistance program (MAP) funding in FY 1990.

The international military education and training (IMET) program is a grant-aid, low-cost instrument that gives the U.S. Government an extremely valuable channel of communication and influence with foreign military organizations and promotes a concept of professionalism that includes respect for democracy, human rights, and social justice. Education and training for the professionalization of military officers have long been considered to be the most cost-effective form of security assistance.

BIPARTISAN CONSENSUS

Mr. **Aronson**. I do not know if Mr. Schieck would——

Senator **Leahy**. Let's go through these issues and then go to Mr. Schieck after that.

Mr. **Aronson**. Fine.

Senator **Leahy**. Incidentally, you mentioned it is your intention—and Secretary Baker's—to seek a bipartisan consensus. I completely agree with that, and I commend you for that. I know that you have met with Democrats and Republicans alike in this respect. Secretary Baker was up here on the Hill again just yesterday in meetings to formulate that consensus. He has been available to meet with any Senator, Republican or Democrat, on these issues and has had many, many meetings where he has had key members of both parties there. I think it has been very, very helpful. The President has done the same thing.

I would just hope the word gets out to political groups that this is really what is being done because it is the only way it is going to work. The inability to really do the kind of effective things that could have been done in the past few years was caused by polarization. So, I do commend you personally for your continuing efforts to bring about a bipartisan consensus. But when we do consult, it has to be real consultations, not just informational meetings. We have to figure out what we are looking for.

EL SALVADOR—POLITICAL OR MILITARY SETTLEMENT

In El Salvador, do we look for a political settlement? Is one possible? That is really my bottom line.

For example, in its report the Kissinger Commission said, according to the Defense Department, it would take $400 million in United States military aid for 2 consecutive years to break the military stalemate down in El Salvador. Well, the Congress is not going to approve amounts like that. And without it, does the Government of El Salvador defeat the rebels in the battlefield? I mean, it's a basic question. Do you think they could without that kind of aid, without the $400 million for a couple years running?

Mr. **Aronson**. Well, it is clear that if we did not provide both the economic and military assistance that we are asking for at those kinds of levels, that you would see increased violence in El Salvador and no prospects of a political settlement.

Senator **Leahy**. That is not the question. I do not see any way those kinds of aid levels are going to be passed.

There is great concern about what we are spending down there. The chart we have over here shows we spent $5 billion from 1980 to 1990. Look at the huge levels. This is for a country of 5 million people. We have sent $5 billion to El Salvador in just that 10 year period. No wonder people get concerned.

Without sounding parochial, one of my constituents, Mell Huff, is here in the audience today from Vermont. A group of people were concerned enough about what is going on here to get together, collect the money, pay her air fare to come down just to attend this hearing. This is happening in a number of other States. People are very concerned about what is being spent, why is it being spent.

So, again, the basic question is, if we do not spend $400 million in United States military aid for 2 consecutive years—and I question very much whether such votes would ever be there—can the Government of El Salvador defeat the rebels in the battlefield?

Mr. ARONSON. I suspect that you are not going to see a definitive defeat of the rebels on the battlefield, but they certainly have prevented them from taking power. If you compare the number of guerillas today to 1983, there is about one-half as many in the field. They have far less political support, and the guerillas now know that they cannot win a military victory, which has not been the case for recent years. So, I guess I would disagree with the contention that the money we have spent has not made a difference.

And I guess I would also say that those——

Senator LEAHY. Does that mean, though, that the administration is going to be willing to push for a negotiated settlement?

Mr. ARONSON. We are committed to a negotiated settlement, and definitely we will use our influence to help create the conditions where a negotiated settlement can take place. I would note there, Mr. Chairman, that President Cristiani in his inaugural address committed himself to a negotiated settlement and, in fact, offered to sit down without conditions with the FMLN in a dialog. Prior to these elections, all of the parties in Salvador did sit down with the FMLN in a dialog.

EL SALVADOR—SOVIET INFLUENCE ON FMLN

Senator LEAHY. Let me ask you this. You just returned from Moscow. I think the Soviets are an important part of any question of ending the conflicts in Central America. I am pleased that Secretary Baker sent you there as one of your first trips because it is important to what happens.

In your estimation, do the Soviets have leverage over the FMLN guerillas in El Salvador?

Mr. ARONSON. I think they have some leverage, both direct and indirect. One of the guerilla army factions is, in fact, allied with the Communist Party, the faction headed by Shafik Handal that has always been pro-Soviet. The other factions are primarily allied with the Cubans. But it is the Soviet Union that underwrites the Cuban economy and military to the tune of $6.5 billion to $7 billion a year and underwrites the Nicaraguan economy and military to the tune of about $1 billion a year. And, in fact, it is Cuba and Nicaragua increasingly using Soviet bloc weapons that is the principal supplier of the FMLN. So, they certainly have influence.

One of the issues in our bilateral relations is that very point. The Soviet Union has committed itself to support the Esquipulas agreement. We think that is a very welcome and encouraging development. But the Esquipulas agreement confers obligations on outside powers to try to end the flow of arms to irregular forces. We want to see that arms flow end from Nicaragua into El Salvador and from Cuba. We also believe the Soviet Union can have an influence on that arms flow.

But if we are looking for a negotiated settlement to the war in El Salvador, that is also one of the necessary conditions. We have to talk about our aid levels, but we are not going to have a chart over here showing aid levels to the FMLN. Until the FMLN also understands that there is no alternative to a negotiated settlement, it is unlikely we will have one. So, we need to also use our diplomacy and our resources and our staying power to convince them that time is not on their side. They are not going to win either a military or a political victory that the people of El Salvador will not give them through the ballot box.

Senator **LEAHY**. This committee has no jurisdiction over the Soviet budget. We have enough problem with our own.

SOVIET SUPPORT OF NICARAGUA

You anticipated my next question. So, let me ask a two-part question.

First, based on your discussions, do you think the Soviets realize the serious problems their own support to Nicaragua causes the United States because of the fact that every time that issue comes up in the Congress there is a very, very serious reaction? So, first, do they understand how much of a problem it is causing?

And, second, are they willing to end that support? I do not mean just directly, but also through Cuba and Eastern Europe. Are they willing to end it not only in Nicaragua, but are they willing to use that support or the withdrawal of that support to bring pressure on negotiated settlements in El Salvador? Before I yield to Senator Kasten for his questions, what is your best impression on that?

Mr. **ARONSON**. Senator, one of the additional values of the bipartisan accord, as you know, was that the accord had a very strong statement from the Congress and the Executive, Democrats and Republicans, on this issue. Congress and the Executive made it clear that the very question you raise, which is Soviet aid flows into Central America, is an issue in our bilateral relations. And it will affect our bilateral relations. I think the Soviet Union understands that.

I cannot answer definitively the question you raised whether or not they will take action. I would say that we are engaged in serious discussions with them. They understand our concerns. I am somewhat encouraged by the tone and the nature of the discussions we had. The proof will be in the pudding. But we have seen some gestures which we think are encouraging. This is going to be a long process, and these negotiations have just begun. But I think that their support for Esquipulas is necessary and it is crucial and it is expected. And I think it is important that the Soviet Union understand that the Congress and the Executive will watch what they do on this important question.

SECRETARY ARONSON'S TRIP TO THE SOVIET UNION

Senator **LEAHY**. Do you think you were successful in the trip to the Soviet Union?

Mr. **ARONSON**. I think the trip was well worth the air fare.

We have seen, as you know, in other regional conflicts a new willingness by both the Soviet Union and other nations to engage in serious and constructive negotiations with the United States to resolve regional conflicts. I am sure you noted, as I did, in your paper today that the Organization of African Unity, Jonas Savimbi and the President of Angola shook hands. That is an unprecedented and very hopeful and welcome development. So, we need to see the same kind of constructive new thinking applied to Central America by the Soviet Union. I hope that we will see it, and we have begun a process to try to engage the Soviet Union to reach that goal.

Senator **Leahy**. Senator Kasten.

WELCOMING REMARKS

Senator **Kasten**. Mr. Chairman, thank you.

First of all, I would like to welcome you. This is your first appearance before our committee and we look forward to working with you.

Mr. **Aronson**. Thank you, Senator.

Senator **Kasten**. Until now, I didn't realize that you have just come back from the Soviet Union. I have also recently returned from there; I was teaching democracy at Moscow State University with a number of neo-conservatives, including Norman Podhoretz and Mitch Dechter. It was an amazing experience. In private discussions I had with Soviet intellectual leaders and with Soviet students and professors, I found the same kind of hopefulness that I sense in your statement.

We discussed not only their military budget, but also Soviet support of both Cuba and Nicaragua and therefore the bases from which they operate the rebel movements in other places. And the squeeze continues on the Soviet domestic economy—as you found out, life in the Soviet Union is worse now, not better, than it was 5 years ago. Despite glasnost and perestroika, everyday life is worse.

There is a pressure within the Soviet Union that might help us to discourage their support for some of these different kinds of activities in our hemisphere.

BIPARTISAN CENTRAL AMERICAN POLICY

But you come before us at an historic time, because we are developing a truly bipartisan foreign policy with regard to Latin America and Central America. I would say that you, because of your political affiliations, represent that bipartisan effort. When we have a 90 to 8 vote on the floor of the United States Senate with regard to our policy in Nicaragua, it shows that everyone has given a little, and that Americans are basically speaking with one voice. When Secretary of State Jim Baker or President Bush stands up, he is going to find support in both the House and the Senate.

So, I have every reason to believe that all countries in Latin America can come under this bipartisan effort. I look forward to continuing our development of this bipartisan approach. I think it is going to be much more helpful.

EL SALVADOR

You will probably field a number of questions today about El Salvador. I think that the vast majority of Congressmen and Senators support this administration's effort to bring about a lasting democracy and an end to warfare in El Salvador.

President Cristiani has vowed to relieve economic distress and work for economic progress, and growth in the private sector. He has also vowed to stop government corruption, and is working to bring the war to a close. In addition, he is fighting to strengthen democracy and to increase respect for human rights. All of us want to help him, and I hope we can do so in the bipartisan way that you and the chairman were discussing.

So, we want to work with this new administration, and I am optimistic about the results. I think that tough questions need to be raised and hard discussions need to take place. We will, I'm sure, do some of that this morning.

Unfortunately, I have an amendment on the floor having to do with section 89 of the tax bill and another amendment on the child care bill. I will not be here for part of the hearing this morning, but I wanted to direct two specific questions to you.

WEAPONS SUPPLIED TO THE FMLN

It is my understanding that the Salvadoran military recently discovered a significant FMLN weapons cache which indicates a recent and a very massive arms shipment to the FMLN. My question is whether you perceive any change in the volume or the quantity of the weapons going to the FMLN over the last year. Are we seeing an increase in the number of weapons, and what is the source of those weapons?

RESPONSE TO WELCOMING REMARKS

Mr. ARONSON. Senator, thank you for your remarks.

Before I answer your question, I would just like to respond to the point you made about the value of a bipartisan policy.

When President Arias was here and when every subsequent Central American leader has visited our country or talked to a representative of our Government since we negotiated the bipartisan accord, they have all said the same thing, which was basically, "Thank God." There is a palpable sense of relief by these Central American leaders that we are, as you said, speaking with one voice.

I think we do not realize how difficult it is for the leaders of small nations, who have great pride and dignity, but have a certain dependency on our assistance and our policy, to try to wend their way through the policy debates when we are divided and how much they appreciate the fact that we are trying to come together not by suppressing our differences, but by trying to honestly debate them, and as you say, all sides trying to come together behind a principled policy and some common ground. So, I think that this helps us not only internally in our relations between the branches, but it greatly strengthens our capacity to influence events for the better. And I appreciate what you said.

WEAPONS SUPPLIED TO THE FMLN

In terms of the arms cache, that was I think the largest arms cache that the Salvadoran military has ever uncovered. What was particularly disturbing about it was that it was largely Soviet bloc weapons. It was AK-47's, about 300,000 rounds of ammunition, RPG grenade launchers, and others of Soviet manufacture. Some were of Cuban manufacture, in fact, and had been stamped with the date 1988. There are two things that are disturbing about it.

First, if the FMLN is increasingly transferring its weapons from M-16's to AK-47's, which it is, and to Soviet bloc weapons, that suggests that they believe that they are going to have a reliable and continuing arms supply from the outside because they cannot capture the ammunition and the materials to maintain or service that weaponry. And that is a disturbing thought.

Second, in terms of your question about the volume of aid, one of the things that concerns us very much about the Government of Nicaragua's policy in recent months is that since the United States suspended military assistance to the Nicaraguan resistance, we have seen an increase in transshipment through the Government of Nicaragua of weapons to the FMLN which is a direct violation of the Esquipulas accord. By and large the weapons come to Cuba and they are either shipped directly to the FMLN, or often they are shipped to Nicaragua and then transshipped by sea and other routes. And that volume is on the increase. Much of the urban violence and terrorism that you are seeing in El Salvador is being fomented with these weapons.

The reason I make the point about Esquipulas is that the Nicaraguan Government has tended to treat the Esquipulas agreement as a Chinese menu. They pick the portion of it they like, which is the prohibition on the use of Honduran territory for regular forces against the Government of Nicaragua, and they ignore the portions that they do not like, which is the corresponding prohibition on the use of Nicaraguan territory to provide aid to the FMLN. That aid continues. The command and control of the FMLN is inside Nicaragua. That is a longstanding relationship.

I think it is important that the Nicaraguan Government understand that any settlement based on Esquipulas has to include that issue fundamentally. We accept our obligations to support Esquipulas in all its aspects as do the other Central American governments, but they and we expect the Nicaraguan Government to live up to its obligations as well because the purpose of this agreement is to bring peace to the region and there will not be peace to the region so long as any government in Central America believes it has a right to ship weapons to guerrilla forces that are trying to use violence and assassination to overthrow a democratically elected government.

Senator **Kasten**. I would hope that we would bring these facts to the attention of the Honduran Government, the Guatemalan Government, and most especially the Costa Rican Government because it is those people who have a key interest in maintaining some progress. That is where we can have our maximum benefit. And I know that you agree with me.

SALVADORAN PRESIDENTIAL ELECTION

My next and last question is a question about the elections. I want to preface it by talking about the U.S. observer delegation, the bipartisan delegation led by Congressman Coelho and Senator McConnell. They observed what they called—and I quote—"a passionate commitment of a people to participate in the democratic process despite being faced with intimidation, threats, violence, and death from persons outside the political process."

They found further that—and I quote once more—"at virtually all voting tables reserved by the delegates across the Nation, representatives of all competing political parties sat side by side to conduct the election and ensure that the process was fair, open, and without fraud. The delegates were impressed by the thoroughness of the voting system which included the Central Elections Council's advanced registration program, on-site voter identification process, and the tallying and collection of the vote totals after the polls closed."

One of their conclusions—and again I quote—"Based upon our observations"—of Congressman Coelho and Senator McConnell—"our determination is the election was free and fair."

You mentioned the woman who boasted that she and the wealthiest man in her county or region have the same right to vote. Have you had an opportunity to examine the election further since this delegation was there? Have there been any views that the election was anything less than free, open, and fair?

Mr. ARONSON. Senator, I think the best measure of that is the fact that the losing party, the Christian Democrats headed by Fidel Chavez Mena, accepted the results and never really contested the fairness of the process.

I would note that this was an historic event in El Salvador. There had never been a peaceful transfer of power from one party to another. Some people do not like the outcome, but that is not the business of the United States to make judgments on the outcome. Our commitment is to fair processes. And it is a measure of, in fact, the change in El Salvador that the events that you just described that were witnessed by Congressman Coelho and others took place.

One of the sad parts about the coverage of El Salvador—it is nobody's fault—is that the extremes in that society, the guerrillas on the one hand and the death squads and their allies on the other, get all of the attention. But the vast majority of Salvadorans do not occupy either of those extremes. They abhor those extremes. They do not want to be ruled by them. The vast majority of people in El Salvador, whether they are in the center, the left of center, right of center politically, want democracy, and that is what they are committed to.

We need to ally ourselves, and we are allied, with that democratic center against the extremes on the left and right. And that is a frustrating process. It takes patience and it takes commitment. But, in fact, they deserve our support and our support has helped ensure that that kind of process that you just described can take place.

I remember a time not very many years ago when if somebody had said to me we would have a free election in Salvador, one party would win, the opposite party would lose, the military would respect and support the process, that would have been a miraculous event. Now we kind of take it for granted because we tend to discount progress because we all have high hopes and goals. We should have high hopes and goals and high standards, but we should understand that that progress is real and it is important and that very brave people in that country sacrificed to build that democracy and they need our help.

Senator **Kasten**. I have further questions that I will submit for the record.

I would ask unanimous consent that a list of the U.S. observer delegation to the Salvadoran presidential elections, along with a statement of the U.S. observer delegation on the Salvadoran presidential elections, appear in the record at this time.

Senator **Leahy**. Without objection.

Senator **Kasten**. Thank you, Mr. Chairman.

[The information follows:]

UNITED STATES OBSERVER DELEGATION TO THE SALVADORAN PRESIDENTIAL ELECTIONS

MARCH 18-20, 1989

HEAD OF THE DELEGATION

The Honorable Mitch McConnell U.S. Senator	120 Russell S.O.B. Washington, D.C. 20510 (202) 224-2541

CO-HEAD OF THE DELEGATION

The Honorable Robert Martinez Governor of Florida	Office of the Governor The Capitol Tallahassee, FL 32399 (904) 488-9556

MEMBERS OF THE U.S. DELEGATION

The Honorable William G. Walker United States Ambassador to El Salvador	American Embassy San Salvador APO Miami 34023-3450 (503)26-7100
The Honorable John P. Murtha U.S. Representative	2423 Rayburn H.O.B. Washington, D.C. 20515 (202) 225-2065
The Honorable Tony Coelho U.S. Representative	4148 U.S. Capitol Washington, D.C. 20515 (202) 225-3130
The Honorable Bill McCollum U.S. Representative	1507 Longworth H.O.B. Washington, D.C. 20515 (202) 225-2176
The Honorable Alan B. Mollohan U.S. Representative	437 Cannon H.O.B. Washington, D.C. 20515 (202) 225-4172
The Honorable Robert K. Dornan U.S. Representative	301 Cannon H.O.B. Washington, D.C. 20515 (202) 225-2965
The Honorable Jon L. Kyl U.S.Representative	313 Cannon H.O.B. Washington, D.C. 20515 (202) 225-3361
The Honorable Bill Bartlett New Hampshire State Senator	State House, Room 302 Concord, N.H. 03301 (603) 271-2111
The Honorable Frank Tejeda Texas State Senator	1313 S.E. Military Drive Suite 185 San Antonio, TX 78214 (512) 463-0119
Chief Daryl F. Gates Chief of Police, L.A. Police Dept.	150 N. Los Angeles Street Room 615 Los Angeles, CA 90012 (213) 485-3202

Sgt. Charles House Deputy Sheriff, L.A. County Sherrif's Dept.	111 N. Hill Street Room 437A Los Angeles, CA 90012 (213) 974-4814
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Mr. William Doherty Executive Director, American Institute for Free Labor Development	1015 20th Street, N.W. Washington, D.C. 20036 (202) 778-6340
Mr. Peter T. Flaherty Chairman, Conservative Campaign Fund	1156 15th Street, N.W. Suite 500 Washington, D.C. 20005 (202) 331-0541
Mr. William R. Haynes Independent Oil Operator	510 Bering Drive Suite 300 Houston, TX 77057 (713) 784-4049
Mrs. Beryl Milburn	2606 Pecos Street Austin, TX 78703 (512) 477-8384
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STATEMENT OF THE UNITED STATES OBSERVER DELEGATION ON THE SALVADORAN PRESIDENTIAL ELECTIONS

First, we would like to thank President José Napoleón Duarte and the Government of El Salvador for inviting the United States as a part of the international delegation to observe the Presidential Election in El Salvador.

The purpose of the American delegation has been to observe the electoral process in this important election, and report back on the integrity of the process to:

- President George Bush;
- The United States Congress; and
- The American people

The outcome of the election is not an issue before the American delegation -- that outcome is solely in the hands of the people of El Salvador. The only issue before the American delegation is whether or not the outcome of the election was arrived at in a fair and open manner.

What we have observed in El Salvador is a passionate commitment of a people to participate in the democratic process despite being faced with;

- Intimidation;

- Threats;

- Violence; and

- Death, from persons outside the political process.

Votes have been cast today at about 300 different sites throughout the country. Members of our delegation have monitored and viewed the voting process at 50 of those locations which account for roughly 80 percent of the total vote. In addition, delegations from numerous other countries have conducted similar surveys at dozens of other polling places.

These international monitoring efforts complemented the processes put in place by the Salvadorans themselves. At virtually all voting tables observed by the delegates across the nation, representatives of all competing political parties sat side by side to conduct the election and ensure that the process was fair, open and without fraud. The delegates were impressed by the

thoroughness of the voting system which included the Central Elections Council's advance registration program, the on site voter identification process and the tallying and collection of the vote totals after the polls closed.

Understanding that the delegates did not visit every polling station nor were they present for the complete certification process, there are some observations that we wish to make at this time:

- The eligible voters of El Salvador have once again turned out in large numbers to exercise their freedom to vote;

- The delegation believes turn-out was significantly affected by the transportation ~~strike~~ disruption and threats of violence.

- Although some minor problems occurred in the administration of the election, these problems affected a small percentage of the votes.

- Based upon our observations, our determination is that the election was free and fair.

We salute the El Salvador government and the political parties of El Salvador which have carried out the electoral process under great difficulty .

We salute the courage, commitment and tenacity of the people of El Salvador who have gone to the polls in large numbers despite the threat of violence and the actual violence that has occurred.

We commend the progress that has been made in recent years in the human rights area, and want to stress strongly that continued progress must be sustained.

We hope that the ongoing violence in El Salvador can come to quick and final end.

WELCOMING REMARKS

Senator LEAHY. I will go back to my round of questions a little later. I want to go further into this because I want to talk about the 69 percent of the Salvadorans who did not vote and why.

Senator Lautenberg.

Senator LAUTENBERG. Thanks, Mr. Chairman. I will just be a few minutes.

I want to take this opportunity to welcome an old friend in a new post, someone for whom I have a great deal of personal regard, and know that his professional competence will serve him well in this assignment. I am perhaps even grudgingly willing to give the administration credit for our reaching across the line. They have done that before, but this is a sensitive post that Mr. Aronson has. And I commend them for their willingness to extend a hand to someone who they believe can be of help and yet has a strong background in the other party.

HUMAN RIGHTS ABUSES IN EL SALVADOR

I do not want to rain on the parade here, but we are hearing about progress. Certainly we are listening to hopes and aspirations that we are going to be able to resolve some of the problems. But realistically we have seen the statistics confirm our worst fears and that is that violence in El Salvador, for instance, has increased, that in the year ended 1988, human rights abuses have climbed 67 percent. It seems to bear up under scrutiny that much of the squads that are wreaking this havoc, do have an official imprimatur whether directly or indirectly.

In light of these findings of recent upsurges in violence, Mr. Aronson, I would have to ask you how would you evaluate President Cristiani's progress so far in the human rights area?

Mr. ARONSON. Senator, first of all, thank you for what you said, and I hope you know, and I think you know, that the friendship and respect is mutual and longstanding.

I know that your concern for the violence in El Salvador like the concern of other committee members is based on your commitment to human rights, and I share that commitment. I think we need to work together to decrease that violence because it has gone on for a long time. The victims are usually innocent people.

I guess I would say first of all that it is always delicate to get into a numbers game because it sounds as if you accept some level of violence because it is smaller than a previous level, and I do not want to suggest that. No level of political violence is acceptable as far as I am concerned, and as far as the administration is concerned.

But if you look at the trend since the United States has been engaged in El Salvador, in fact, the trend is a dramatic and steady decrease in political violence. In 1983 there were more people killed in a month—three times as many people killed in a month in that country as were killed in the entire year of 1988. I would like to see the figures that you cited about an increase. I have not seen figures that suggest in 1988 there has been an increase. In fact, I think in terms of numbers, again it was a slight decrease.

Senator **LAUTENBERG**. This is from the Catholic Church Human Rights Office, and they said that from 1987 to 1988, deaths resulting from human rights abuses climbed 67 percent. So, that information is available.

Mr. **ARONSON**. I would like to look at it. The figures I have seen show a slight decrease in the political violence.

I would note three things. First of all, political violence in El Salvador comes from both extremes. It comes from the FMLN, and it comes from extremist forces on the right who think that they can turn the clock back to a past that El Salvador is not willing and not prepared to return to.

Increasingly in recent months political violence in El Salvador has been a deliberate policy of the FMLN to intimidate and assassinate elected officials. Just 2 weeks ago the new minister of the presidency of the Cristiani government who had served in office for 8 years was murdered in front of his home by four armed gunmen. He was, I believe, 75 years old. He had served in his post for 8 days.

The FMLN, I believe, has embarked on a deliberate policy to create repression in that country. I think they know what they are doing. I think they want to encourage the death squads to come back out of the closet. And if you look at what they do, it makes sense. They put a bomb in the home of the minister of defense's 75-year-old mother. They put a bomb in the home of the vice president-elect when he was in the United States and his children were in that house and neighboring children were in that house. I believe when you try to murder children and the mothers of defense officials, you are not committing a political act, you are committing terror. And the purpose is to provoke a counter-reaction.

UNITED STATES RESPONSE TO VIOLENCE IN EL SALVADOR

Senator **LAUTENBERG**. But I think, Mr. Aronson, the question is what do we do about it. In my view, we are not—through debate, gentle persuasion, or heavy-handedness—going to be able to persuade the Soviets that it is a good idea to let us have a little peace and tranquility down there. The chairman asked a question. Do they realize how much trouble they are causing? Of course, they realize it. I do not want to debate with the chairman. He has a lot of wisdom and a lot of experience. But the fact is they know they are creating enormous problems for us. What do we do?

How much aid would it take on behalf of the United States Government to help create a quiescent mood in El Salvador?

I visited there a few years ago. At that time Tom Pickering was the Ambassador. I went out to the countryside, talked to the people. They are an energetic, bright people. I was surprised when I asked a group living on an abandoned coffee plantation what it was that we could do to help them. And they didn't ask for medical care even though the children were obviously suffering from lack of appropriate medical attention. They didn't ask for more sanitation or even for more food. They asked for a teacher for their children. These are people who seem to be very responsive to opportunities to move out of the circle of violence and ignorance and the lack of opportunity that they have.

So, how do we make a difference? And I do not want you in 2 minutes in front of a hearing synopsize a whole foreign policy objective in that area. But it seems to me that as we discuss it and we point out the problems on the other side, we have to think about what the alternatives are that we offer from this side that make the difference. Thus far I have not heard a discussion of that. I just wondered whether in a very general term what you think we ought to be doing.

Mr. ARONSON. First of all, I think we need to defend democracy and defend human rights. That has been the policy of the United States. I think we need to continue and strengthen it.

I would note in that regard that within 1 week of taking office, the President sent the Vice President to El Salvador. He met with all the parties there, including the military high command. He confronted the Salvadoran high command with an incident that had taken place in a town called San Sebastian in which there had been an alleged massacre of 10 people. The army had claimed that this had simply been a fire fight. The indication the embassy had was that it had been something different. And he said you have to clean your own house. We cannot tolerate that.

To its credit, the high command went back and investigated that massacre. They said a coverup had occurred. They cashiered nine military men, two majors, threw them out of command, and they are now facing trial. That is an important step forward.

So, part of what we need to do is to make it clear in every way, in every statement, in every use of our aid, that we expect and will demand steady improvement in defense of human rights. That is a message that the Congress and the administration have to bring together.

Senator LAUTENBERG. Does it need a financial envelope to carry that message?

UNITED STATES AID TO EL SALVADOR

Mr. ARONSON. The only reason we have influence and have, in fact, made a substantial difference over the last 5 years in diminishing violence is that we are engaged in Salvador and we are relevant. I would note that there is a constituency on both the extreme left and the extreme right in El Salvador for cutting United States aid. And I think we need to pay attention to this.

The FMLN wants us to cut aid to El Salvador. They want us to wipe out military aid. And their motives are clear. They want to have a military takeover. I do not think anybody on this committee has any illusions that that will advance the cause of human rights in El Salvador.

There is also a constituency to cut military aid to El Salvador on the extreme right. And, in fact, the most extreme forces in El Salvador that are the most associated with the kind of activities we are talking about have a different version of the problems there.

Their argument is that if you accept aid from the United States and take these human rights restrictions and these concerns about the way they prosecute the war, that that is a formula for defeat. And they represent a kind of nationalist, anti-American, right wing populism that says forget about these restrictions. There is a better model for fighting communism in Central America. And they point to another country in the region where U.S. military aid had stopped and, in fact, there was simply a blood bath and everybody was killed.

I think we need to ask ourselves a serious question when we debate the utility of aid, and that is if the killers on the left and the killers on the right in El Salvador want us to cut military aid, is it going to advance the cause of human rights.

I understand your concerns, Senator, and they are worthy and decent concerns. All of us would much rather be funding teachers and health care exclusively in Central America. I would note that four or five times the amount of our aid in El Salvador is for economic purposes.

But that is also why we have to hold steady until we can get to the point where we can end this conflict. A precondition for ending the conflict is not only defending human rights, which we must, but also convincing the FMLN that it is time to negotiate a serious settlement. If they believe that they can provoke repression and thereby win a cutoff in military aid, they will continue this policy of assassination and urban terrorism.

We need to send a steady signal from the Congress and the administration together. One is that we are not going to tolerate abuses of human rights—we expect the Cristiani government to live up to its commitment—but, second, to the FMLN that they are not going to win a political victory in the United States that they cannot win in their own country. I recognize that that is not easy. It is why we need to consult. It is why we need to trust each other. But I think unless we send both of those signals, we will not advance the cause of human rights to which you are committed and to which this administration is committed.

Senator LAUTENBERG. Thank you very much. I have used my time. I feel good about the analysis that you will be giving this problem, Mr. Aronson.

I thank the Chairman for the opportunity to participate.

Senator LEAHY. I might say, Senator Lautenberg, I know this is an area of major concern to you and we certainly have discussed it enough times not only in private, but in the committee and on the floor. I am very pleased that you are here.

We have the ranking member of the full committee, Senator Hatfield, who is also a valued and senior member of this committee with us, and I know you want to make a statement. As I understand it, you also have to be somewhere with the President pro tempore of the Senate just about now too. Senator Hatfield.

Senator **Hatfield**. I thank the chairman and I thank Senator Harkin for yielding.

WELCOMING REMARKS

Welcome, Mr. Secretary. I am happy to see you here today, and I merely want to make one or two brief observations. Then I would ask to submit a few questions for the record.

Senator **Leahy**. Without objection.

EL SALVADOR

Senator **Hatfield**. Mr. Secretary, I have observed many times that the media can only handle one war at a time. Now that matters seem to be winding down in Nicaragua, I am sure that journalists will be moving from Managua to San Salvador in greater numbers. I think very soon we are going to see a public reaction to exactly what has happened in El Salvador; that is, we have been bankrolling a failure, a disastrous policy that is costing us $1.5 million a day. By fiscal year 1990 it will have risen to $5 billion that we have sunk into that area.

I must tell you that the initiative Senator Harkin and I have presented is to withhold—not cut, but withhold—50 percent of the military aid designated for El Salvador for 6 months pending the submission of a report to the Congress that efforts are being made to negotiate settlement of this civil war.

If you look at the suffering of the people, there is no way that you can screw up the statistics to indicate that we've had any kind of success. Whether it is water, food, housing, education, those people are worse off today than they were a decade ago.

Now, I am very, very optimistic that this new administration that has inherited this failure of a policy in El Salvador is eager to work with the Congress and certainly is eager to redirect our foreign policy toward El Salvador. I think the trip of the Vice President is a clear signal.

FMLN OFFER TO NEGOTIATE

I also hold in my hand a letter from Mexico City dated April 26, 1989, and it is signed on behalf of the FDR-FMLN Political Diplomatic Commission in which they say the FMLN is ready for a negotiated political solution to the conflict in El Salvador and that they are committed to the establishment of a pluralistic and democratic system in both the political and economic spheres. And we are looking for a political solution that will guarantee not only democracy in El Salvador, but also the fulfillment of a good neighbor policy in the Central American area and the establishment of a relationship of respect and mutual advantage with the Government and the people of the United States.

Now, we can very easily flip that off and say they are lying, we can't trust them, or they have said that before, or whatever. But, Mr. Secretary, too often we do not put them to the wall and say, all right, put up or shut up. We are going to take you up on your offer and either prove you to be liars, but they can get away with propaganda after propaganda barrage because so often we just flip it off and say, well, you can't take them at their word.

In fact, I have been invited to participate in that as one of the citizens of the United States, and I do not intend to do that because I think the title I hold would convey the wrong impression that I have been elected to conduct foreign policy. That is the President of the United States' responsibility, with the assistance of our Appropriations Committee and through the confirmation of the other powers in our Constitution.

I am merely saying to you that I and my colleagues on this committee hope very much that you will begin working toward a revised foreign policy concerning El Salvador. I want to assure you of my full and complete support.

I think that withholding is a gentle nudge not intended to be adversarial or pugnacious, but rather to indicate that we are spending at this horrendous rate and ratcheting down other needs of the people of this country. We ought to have a little better benefit ratio of those policies that we are supporting. As I say, we will have spent about $5 billion by 1990.

Mr. Chairman, again, I want to thank you for this opportunity to make these brief comments.

I know that Senator Harkin will pursue the initiative with you this morning. But I wanted to pledge you my support and encourage you to move with great imagination and creativity, and challenge these people. If they are really serious about sitting down, make them be the ones that fail to show up.

Senator LEAHY. Thank you very much, Senator Hatfield. I know of and have long admired your real concern about the activities in Central America. I know you, like Senator Harkin, have been forthright and strong in your statements and your interests. I am pleased that both of you are members of this subcommittee.

Senator Harkin, I want to yield to you now for whatever time you need.

REVISING UNITED STATES POLICY TOWARD EL SALVADOR

Senator HARKIN. Thank you very much, Mr. Chairman. I just want to associate myself with the remarks by my distinguished colleague from Oregon, Senator Hatfield. To the extent that there is a revision in the policy toward El Salvador, I too would pledge my support to that revision of policy that Senator Hatfield just spoke about. I am going to continue to join with him in seeking to have that provision that we had supported last year, which only failed by one vote in the Appropriations Committee, to see if we can get that through again this year, again as a reminder to those in El Salvador that it can't be business as usual if the death squad activities increase and if the right wing goes on a course that it seems to be headed on right now.

HUMAN RIGHTS IN EL SALVADOR

Mr. Secretary, I wanted to go through a few items with you regarding the reemergence of the death squads and the right wing in El Salvador. Vice President Quayle was recently in El Salvador in June, about 1 week ago. Sometimes one picture says 1,000 words.

Here is a picture on the front page of the New York Times—I'm sure you saw it—of Vice President Quayle holding a captured Soviet-made flamethrower with a couple of Salvadoran military people. The caption under the picture reads: "Quayle stresses human rights in meeting in El Salvador" while holding a flamethrower and appearing with two generals. I guess they are two generals. Yes; an army chief of staff and another general.

Sometimes, as I said, pictures say a thousand words. And I really question if that is the right way to portray our concern about human rights. If the Vice President really wanted to stress our concern about human rights, he might have visited a barrio where they do not have electricity or water, where kids are dying every day, where they do not have education, where they do not have health care, where the poorest of the poor in this world live in some of those slums two or three blocks away from some of the biggest mansions I have ever seen anywhere in the world. Maybe a picture of him in the barrios might have said a lot more about our concern for human rights.

But I have to tell you, Mr. Secretary, Mr. Quayle's visit reminded me of an earlier trip by then Vice President George Bush. That was a trip about 5 years ago, December 11, 1983, to be exact. Then Vice President Bush met with Alvaro Magana who at that time was Salvador's provisional President. Now, on that trip Vice President Bush expressed his displeasure with the fact that right wing death squads were turning El Salvador into a slaughter house. "The killing had to stop," the Vice President said, "or El Salvador risks losing American aid."

DEATH SQUAD LEADERS

Guess who was with Vice President Bush. None other than Lt. Col. Oliver North. He handed Magana a piece of paper that we have learned later had no letterhead or watermark to make it traceable. According to a high level participant at the meeting, the paper listed nine men identified by U.S. intelligence as death squad leaders, all but one of them officers in the Salvadoran Armed Forces. Bush told Magana that they had to go. Evidently the message stuck. While none were ever brought to trial, they were all subsequently dismissed or sent into a kind of a gilded exile. Killings in El Salvador, which had averaged about 800 per month at their peak began to decline.

As a result, El Salvador, which had previously been a divisive issue in Congress, was greeted by the support of a bipartisan consensus, aided as well by the election of Napoleon Duarte some 6 months later.

That diplomatic success so often cited by Mr. Bush in his own Presidential campaign now seems to be in jeopardy.

Mr. Aronson, what happened to the Salvadorans included on the Bush list? Do you know who was on that list and where they are now?

Mr. **Aronson**. I do not recall all the people who were on the list. Some of them held positions of authority in the treasury police and in the military. And as I remember, some of them were exiled, but most of them lost those positions of authority. A few of them who no longer hold positions of authority I think have come back into the country in some private capacity in recent months, but none of them exercise positions in the new government to my knowledge, though, I do not recall having seen the list at the time it was sent down there. I wasn't in the government and I have not reviewed it since then.

Senator **Harkin**. Would you review it, if you haven't reviewed it?

Mr. **Aronson**. If it is available, sure.

Senator **Harkin**. Again, I am just talking about stories that have been in the newspapers. I am not saying anything out of school here.

COLONEL MORAN

Here are some of the names that were believed to be on the list that the Washington Post talked about in a recent story. Colonel Moran. Well, we all remember Colonel Moran. He ran the intelligence section of the national guard in the early 1980's. I met him personally when I was down there.

In 1983, he was removed from this post and reassigned as a military attaché in Guatemala. He is a military classmate of Roberto D'Aubuisson. He was implicated in the 1981 killing of the two U.S. labor advisers, Mark Perlman and Michael Hammer. Moran has recently been spotted at military parties in San Salvador, and it is my understanding that the right wing's candidate for defense minister Bustillo was prepared to appoint him as Vice Minister for Public Security if, in fact, Bustillo had won that post, which he did not. But the fact is that Colonel Moran is back in San Salvador and seemingly in good graces.

Mr. **Aronson**. Is he in a position in the government, Senator, or is he simply a private individual?

Senator **Harkin**. As I understand, he is still a private individual but enjoying ready access and sort of carte blanche with ARENA.

Mr. **Aronson**. So, in other words, he was cashiered out of the previous government and he has not been allowed to come back into the new government. Is that correct?

COLONEL CARRANZA

Senator **Harkin**. That is correct, as far as I know.

I also understand that Colonel Carranza was head of the treasury police in the early 1980's and was another one on that list. According to sources in the State Department and the Senate Intelligence Committee, he had been on the CIA payroll and was actively involved in death squad activity. Now, Carranza remains on active duty and has returned to San Salvador from Tennessee where he had been living in semiretirement. So, he went from there to Tennessee and now he is back again on active duty. How do you explain that?

Mr. **Aronson**. I do not know the facts. I will be happy to look into it. Are you sure he is on active duty?

Senator **Harkin**. Well, I am just telling you what I have. I do not know. I would like to find out for sure.

Mr. **Aronson**. I was just asking you what your facts were.

Senator Harkin. That's all the information I have is that he is back, indeed, remaining on active duty. He has never been cashiered out of the military. So, he still remains an active member of the treasury police.

Mr. Aronson. I was just told by one of my colleagues that Carranza was not on the list that the Vice President brought down there and that Moran is still attached to the Guatemalan mission of the San Salvador government.

Senator Harkin. But he is back in San Salvador, is he not?

Mr. Aronson. I assume he comes back. I do not trace his movements.

Senator Harkin. But he did go into exile and came back again.

Mr. Aronson. I take your word for it.

Senator Harkin. Well, I would like to find out. Look into that and see what his position is in the treasury police. My information tells me he still is actively involved with the treasury police.

HECTOR REGALADO

Another name was Hector Regalado who is known as Dr. Death by some. He was the main feature of a two-part Washington Post piece that appeared this August on death squads in El Salvador. Regalado is accused of being one of the founders of the rightist death squads. These were articles that appeared last August 28 in the Washington Post.

Dr. Regalado, who is a dentist, another close associate of Mr. D'Aubuisson, was implicated by the State Department in a 1984 plot to assassinate then U.S. Ambassador Thomas Pickering. Again, he has recently returned to San Salvador after 5 years of exile or whatever you want to call it in Guatemala. What do we know about him? He is back. My information tells me he is back and again very closely associated with D'Aubuisson, very closely associated with the ARENA Party and actively operating after 5 years of being in exile.

Mr. Aronson. What do you mean actively operating? What does that mean?

Senator Harkin. Well, I mean he is in good graces. He is welcomed back. He is fully operating. It's like the ARENA Party has him back in their good graces again rather than saying, no, we do not want anything to do with you. You are persona non grata. No; nothing like that. It seems to be again an important figure in San Salvador.

Has the U.S. Embassy been tracking the whereabouts, the comings and goings and activities of these three people? Obviously, you do know about Moran. How about the other two?

Mr. Aronson. Col. Nicolas Carranza Rivera has retired from the military and is no longer on active duty. We believe he has returned to El Salvador.

As far as our Embassy in San Salvador has been able to determine, Dr. Hector Regalado still resides in Guatemala. He does visit San Salvador from time to time. There are no criminal charges pending against Dr. Regalado and he is therefore free to visit or return permanently if he chooses.

RETURN OF THE DEATH SQUADS

Senator HARKIN. Well, I think the point I am trying to make is that some of these people are back, people who have been heavily implicated in the death squad activities. Does this disturb you?

Mr. ARONSON. If the point you are making, Senator, is that we need to be vigilant about death squad activity, I totally agree with you. If the point you are making is that we should be very careful and watch carefully people who are associated with death squad activity and that the Salvadoran Government should, I totally agree with you.

But there is a larger point and I would like to speak to it, if I might, that you raised and that Senator Hatfield raised. There is no disagreement between this administration and this committee that we need to use every possible resource of this Government and every bit of influence that we have to combat death squad activity and to combat assassinations and murders by the FMLN.

You were speaking earlier of the poor people in El Salvador, and you are right to speak of them. They suffer greatly from this violence. When I was in El Salvador in 1983 and went out and talked to campesinos, they hadn't had electricity for years. Probably now they haven't had it for 10 years in part because the FMLN blows up every power line and bridge and piece of infrastructure. So, if you want to talk about suffering, one of the reasons is that the guerrillas, in the name of the poor, are making the lives of the poor hellish in that country.

DEFENDING HUMAN RIGHTS

The issue that we need to debate and determine is how do we reduce violence. How do we defend human rights? We have debated this issue in our country for many years, and there were those in the early 1980's who said that if we provided any military assistance to El Salvador, first they predicted that we would be engaged in combat ourselves. It would draw us in. It would be another Vietnam. In fact, that did not happen in part because——

Senator HARKIN. Excuse me. Thanks to Congress.

Mr. ARONSON [continuing]. In part because we did provide assistance and the Government of El Salvador was able to defend itself.

But the second point—and it is a point I made earlier—is that our engagement has made the human rights situation better. Is it perfect? Hell, no. Are people being killed? Yes. Is Salvador the kind of place that you and I would want to raise our children? No; and the people of El Salvador know it and they suffer. And you are right to be concerned, and we are concerned. The question is how do you do something about it.

I would note again that the people who do the killing, some of the very people whom you mentioned in that list, also advocate that we cut off U.S. military aid. And you have to ask yourself a question. If the killers on the right, as well as the killers on the left, want us to cut aid, is that going to reduce the killing? Their idea is get out of all these restrictions. Let's not have this messy set of human rights standards. Let's not have the United States looking over our shoulder telling our military that they ought to prosecute the war in a more humane way. That is formula for defeat. That is the argument that the killers on the right make, and they want to cut U.S. aid so that they can go about the business of defeating communism the way they think it ought to be done.

The model they look to is another country in Central America where the United States cut off aid in the 1970's and the 1980's, Guatemala. And there they just killed everybody in sight. That is the preferred goal of the right wing killers. I think we need to keep it in mind when we debate this issue.

LIKELIHOOD OF PEACE

But the larger point is to get to where Senator Hatfield and you and the rest of these Senators want to get to, which is peace. The people of El Salvador are weary of this war. As you said quite rightly, they have suffered greatly. Every time they have a chance to vote, they want two things. They want democracy and they want peace. And they also want economic advancement. The question is, are our aid and our involvement going to make peace more likely or less likely. I do not think peace will come until the killers on both sides of the spectrum understand that their way is not going to succeed. Our involvement makes a difference. Our negotiations with the Soviet Union will make a difference, I hope. Our involvement and support of Esquipulas will. And we need to do it together.

But if the day comes when the FMLN believes that the more they provoke the right wing to respond with repression, the more likely this Congress will cut aid, the more they will continue it. Then we will go back into that terrible cycle of polarization of right wing killers' feeding left wing killers, and it is not going to make the human rights situation better. It is going to make it much worse.

I read something the other day in the New Republic about a very different subject. It was somebody talking about what he had learned about change in the world. He said what I have learned is that positive things and real change for the good happen incrementally, evolutionary, over time, but that terrible change can happen very quickly. Our choices in El Salvador are not simply how do we make things get better, though that is what we have to do, but also how do we make sure things do not get much worse.

I think we need to keep both of those goals in mind as we debate these very tough issues, which I know are frustrating to the taxpayers. I do not blame them. They want the war to end. The people of Central America want the war to end.

One of the reasons I took this job was to see if I could help negotiate a settlement to the conflicts in both of those countries, and I am going to try. But we need to work together to achieve that goal.

ALTERNATIVES IN EL SALVADOR

Senator **Harkin**. Mr. Aronson, I certainly do not doubt your commitment to those goals. I never have, neither in public conversation nor in private conversations with you. I just feel—and I think there are others who feel—that quite frankly the course that we have been on for the last several years, while there has been, as you say, some progress made, we have sunk over $3 billion into this effort and that, quite frankly, we are not just much further than we were at that time, and that we need a different course. We need to revise some of the policies.

You are telling me that we have to accept one of two alternatives, and I am saying I think there are other alternatives that we have to examine. And, quite frankly, to the extent that we now close our eyes and ears to the doings of the ARENA Party and to D'Aubuisson and these other people I have just mentioned——

Mr. Aronson. Senator, do you honestly believe that we are doing that? Do you honestly believe we are closing our eyes and ears to the threat to human rights from the right in El Salvador because I do not believe that?

I think when the Vice President goes down and talks to the army and asks them to do the hardest thing that they can do, which is to clean their own house, in the first week of this administration, and they, in fact, respond and when he goes down there and he makes it clear in the conversations with the people you are talking about, that we will not tolerate backsliding on human rights, and when that message is carried by every representative of this government every time they speak to a representative of the Salvadoran Government, just as it is carried to the credit by this Congress, I think we are working together to send that message.

I think you are right. We need a new approach, and that is, in fact, what we are doing by supporting the Esquipulas agreement. That is a framework established by the Central Americans themselves to end the conflicts in the region. It applies not only to Nicaragua, but to Salvador as well. If we can make Esquipulas work on the ground by enforcing its provisions in a definitive, permanent way, we can end the conflict in El Salvador, and I think we should try.

Senator Harkin. You will not find a stronger supporter of Esquipulas than I am.

My concern though, is that—again, I will rephrase it perhaps, and that is that we can express—you know, Vice President Quayle can go down there and he can meet with D'Aubuisson, which again I think was a mistake to even meet with him because that gives him the aura that he has an open door policy to the executive branch of this Government—I do not know what he said to him in private. Maybe he did tell him about human rights, but we do not know that. All I know is publicly he met with D'Aubuisson. And that is sort of like saying, hey, you're all right.

Again, you can talk to these people about human rights, but they say, well, we will let all those Americans talk about human rights and stuff. We will go on our own way. They are not going to cut off aid to the military. They aren't going to do anything because they're afraid the commies are going to take over. So, we will just keep that aid coming in and we will do what we want to do and let them lecture us on human rights.

Until we start taking positive, affirmative actions, and not meeting with people like D'Aubuisson—these people are coming back into El Salvador.

ARCHBISHOP ROMERO CASE

The second thing is the Archbishop Romero case. It is still hanging there. On November 23, 1987, at a press conference in San Salvador, President Duarte read testimony of an individual whose name is Amado Garay regarding the case of the 1980 assassination of Archbishop Romero. Garay said he drove the getaway car for a still unidentified, bearded assassin who shot Romero as he was saying mass in a hospital chapel on March 24, 1980, I might add, shortly after I visited with Archbishop Romero.

Garay's testimony says D'Aubuisson ordered the assassination of Romero and that cashiered Captain Alvaro Saravia was involved in carrying it out. Asked whether D'Aubuisson was the intellectual author of Romero's murder, Duarte said that was the conclusion you could draw.

Duarte's press conference and Garay's testimony corroborate 1984 congressional testimony of ex-U.S. Ambassador Robert White who said the Embassy had received information in February 1980 indicating "beyond any reasonable doubt" that D'Aubuisson had ordered the killing of Romero.

Now, Mr. Secretary, I am sure that you are aware of the Garay testimony linking D'Aubuisson to the assassination of Archbishop Romero.

Is it not true also that on December 21, 1988, barely 6 months ago, the ARENA controlled supreme court ordered the Salvadoran Government to abandon efforts to extradite former air force captain Saravia from a Federal prison in Dade County?

Mr. ARONSON. That is true to my knowledge. I was not in the Government at the time, but I think that is pretty close to the truth.

Senator HARKIN. Well, what is Saravia doing in a Dade County prison? Do we know?

Mr. ARONSON. What is he doing there?

Senator HARKIN. Yes; why is he in Dade County prison?

Mr. ARONSON. I do not know. I am told immigration charges.

Senator HARKIN. Immigration charges.

Senator LEAHY. Maybe you could supply specif charges for the record.

[The information follows:]

Capt. Alvaro Saravia faced charges based on his illegal immigration status. Captain Saravia admitted to his illegal status in the United States and his consequent deportability and then filed an application for political asylum. He is scheduled for a hearing on July 17 in Miami. Captain Saravia's wife is also in the United States and has also filed for asylum. Both remain free on bond in Miami.

Senator HARKIN. Is it not correct that on December 23 the ARENA controlled National Assembly fired Salvadoran attorney general Flores because of his effort to extradite Saravia and move on the Romero case?

Mr. ARONSON. Are you talking about last year?

Senator HARKIN. Yes; last December 23.

Mr. ARONSON. They did fire him. They did not say, but it certainly looked related.

Senator HARKIN. In other words, on December 21 the ARENA controlled supreme court drops its efforts to extradite him. Two days later the ARENA controlled National Assembly fires the attorney general who is bringing the charges.

Mr. **Aronson**. Right.

Senator **Harkin**. What is the current status of the Romero case? Do we know?

Mr. **Aronson**. Well, it was exempted from amnesty, as I remember, so that it is still pending.

You know, if you are saying that this case was a miscarriage of justice, I think you are probably right. Nobody is defending it. And if you are saying that there is oftentimes and more frequently than not a lack of justice in these political killings, you are absolutely right.

President Cristiani pledged that one of his goals would be to establish a functioning judicial system. I think we should have high expectations for that goal, and we should work with him to try to carry it out. And we should have serious expectations about it.

I would note as well, since you raised this question of the Vice President's trip, that he also met with Guillermo Ungo and Ruben Zamora who from one point in view in Salvador also——

Senator **Harkin**. Could I just interrupt here a second? I can't resist, Mr. Secretary. Ungo and Zamora were never implicated in killing an archbishop either.

Mr. **Aronson**. I never said they were.

Senator **Harkin**. Well, no; but you were saying they were sort of in the same status as D'Aubuisson.

Mr. **Aronson**. Well, I didn't get a chance to make my point, so I do not think it is fair to say what I was going to say.

Senator **Leahy**. Why don't you finish your answer, Mr. Aronson? Then, Senator Harkin, if you have a follow-up, feel free. I have a few other questions. Then we will go back to you, but finish your answer.

Mr. **Aronson**. The point I was going to make is that in some political sectors in Salvador, the Vice President would be criticized for meeting with them as well. And the criticism would be based on the fact that they have never definitively broken their political alliance with the FMLN which is clearly a terrorist group.

If you are going to try to help the parties in Salvador negotiate a peace, you have to talk to them, and you have to build a relationship with them. I recognize those are difficult judgments. I do not think it is fair to say that the Vice President was conferring any legitimacy. He met with a group of ARENA legislators, elected officials of the government, one of whom was the individual you mentioned. Nobody has any illusions about the kind of statements this person has made and the kind of charges that have been made against them. But if you are going to try to have an influence in that society, you need to talk to the various individuals and groups and political forces and sectors that have influence. That is one necessary step in trying to help bring the parties together.

Senator **Harkin**. Just one follow-up, Mr. Chairman. Thank you.

VICE PRESIDENT QUAYLE'S VISIT WITH D'AUBUISSON

Do you know if Vice President Quayle discussed the status of the Romero case with D'Aubuisson?

Mr. **Aronson**. I do not know, but I do know that the central message of his remarks was about this Government's commitment to human rights in El Salvador, our Government's commitment to human rights in El Salvador.

Senator **Harkin**. Last one. Does this new opening with D'Aubuisson mean that we have dropped our efforts to pursue the Romero case?

Mr. **Aronson**. It does not, and I hope it does not mean that the Salvadoran Government has.

Senator **Harkin**. Thank you, Mr. Chairman.

ARENA PARTY IS BEING TESTED

Senator **Leahy**. Mr. Aronson, I understand there has been some interest expressed both at the State Department and in El Salvador regarding how I feel about the government in El Salvador. As far as I am concerned, the ARENA Government is on trial in El Salvador now. By any objective standard, they have a blood-stained reputation. President Cristiani is part of that party and I think that he is going to be watched like a hawk, certainly by me. As a nation, we cannot tolerate the resurgence of the death squads or savage intimidation of labor leaders, political opponents, and human rights activists, or the kind of indiscriminate violence that we saw in the past by a military establishment that believes all the controls are off.

I understand very clearly what you said earlier. If you take away all aid and all controls, you face the possibility of a situation like Guatemala where we withdrew our aid: there is no incentive for the military to reform. They just went out and killed everybody in sight. I understand that. That equation weighs heavily with me on any decisions I might make as chairman of this subcommittee. But at the same time, when we are sending aid and if we stand for anything as a Nation—and I think we stand for a great deal in our ideals of human rights—we have to be very careful of how that is being spent.

Now, I think the military aid level the administration has requested is just not justified. I realize Congress will be discussing that in greater detail, but I do not think the request is justified. But whatever aid level El Salvador eventually gets, I am going to do everything I can as one Senator to put roadblocks in front of that aid if I see the ARENA Government open the floodgates back to the kind of savagery we have seen in the past. Now, I will fight aid at every turn in this subcommittee and the full committee and on the floor of the Senate if I see the ARENA Government deliberately torpedoing efforts to get negotiations started or deliberately working to prolong the war. I am sure you are not surprised to hear that from me. I pass the message kind of over your head and a little bit south of here.

EL SALVADOR ELECTION

Incidentally, up here somebody had asked about these photographs.

Two things I want to note. I had stated that in the election in El Salvador about 61 percent did not vote. I was incorrect in that, and

I want to correct the record. I was given the wrong number for the voters in the 1989 election. Apparently a third of the eligible voters voted, but that was about 50 percent of the registered voters.

Mr. **Aronson**. Which actually compares pretty well with our own turnout I would suggest, Senator.

Senator **Leahy**. I don't know. The last time I ran in Vermont, we had a little better than 80 percent.

Mr. **Aronson**. This was a Presidential election, and in fact the Government——

Senator **Leahy**. This wasn't a Presidential election in Vermont. This was just our State ones. I only happen to remember that one particularly for some reason. [Laughter.]

I was not quite sure whether a State like mine, which is predominantly Republican and I'm a Democrat, whether a larger turnout like that helped or hindered. We found out.

Mr. **Aronson**. In that case it seemed to help.

Senator **Leahy**. I was pleased with the result and changed everybody's views.

But anyhow, let me tell you about the photographs.

I just wanted to get those figures out because they put a better light on the election than what I had said earlier. And in fairness I wanted to correct my earlier statement.

These photographs were taken by a Vermonter during the recent election in El Salvador. They show some armed soldiers standing just—well, you can see—in some instances just inches away from the list that checks off the names. There is no curtain around the ballot box. They have a transparent bag, for the ballots. Then what happens, if anybody looks in, they can just see—you go in, you drop your ballot in, and anybody looking at it could tell just how you voted, whether you voted for ARENA or whomever.

I realize you are not going to answer here now, but the argument is that you can see the ballots go in. So, you know they have actually gone into the box. But another argument could be anybody standing there, especially if the soldiers support the ARENA Party—they see everybody coming in. They know exactly how you voted.

Does that create any problems for you?

Mr. **Aronson**. Senator, I do not know what the facts are in this particular situation. But I would note that the Congress sent a delegation to these elections, and it was a bipartisan delegation.

I personally talked to then majority whip Tony Coelho who went to eight different polling places by helicopter that day. And as you know, Tony Coelho is somebody who cares deeply about the defense of human rights, would not be seen as somebody with sympathy for ARENA by any means. Clearly, he probably shares more of the views of the majority on the committee than the minority.

And he said—and he told me this personally—he saw one questionable site because he did not think there were many observers from the Christian Democrats, and he thought that that was suspicious, though later I think he found that even that was explainable. But he said that his opinion was the election was fair.

Again, I would note I know Fidel Chavez Mena very well who was the losing candidate. It seems to me that if there were any serious contention that this election was not fair, that the losers would have made the case.

As for the presence of soldiers, the FMLN announced before the election that they would kill anybody who voted.

Senator **Leahy**. That's not so much the question. Maybe the voters are so used to using transparent ballot boxes that it doesn't affect the result.

Mr. **Aronson**. I do not know.

Senator **Leahy**. But I'm not sure any of us would want anyone to see our ballot go into a ballot box. We are so used to just having the secret ballot. And, in effect, that is not a secret ballot.

Mr. **Aronson**. Well, I do not know if that was an aberration or what the situation was. Obviously, in a commonsense way, it isn't a secret ballot if you have a plastic bag. I doubt that that was the norm.

Senator **Leahy**. Could you have somebody get back to me on whether that is the norm and just why they do it that way? Maybe that is the only way it can be done. I was rather struck by it because I know in our State it would be very difficult in some elections if people felt, in small towns especially, everybody knew exactly how they voted.

Mr. **Aronson**. Well, but I suspect in Vermont that if the good people of Vermont felt that the election was rigged, that they would say something about it.

Senator **Leahy**. They would have a revolution.

Mr. **Aronson**. I suspect that if that had been the case in El Salvador, it would have been noted there too.

[The information follows:]

The Salvadoran Central Elections Council, which organized and supervised the Presidential elections, opted for a clear plastic bag as the repository for the paper ballots, rather than for a closed container, in order to minimize fraud. Everyone would be able to see that there were no extra ballots in these clear recepticles when the polls opened. Voters were free to fold their ballots in any way they chose. If voters were concerned about people being able to see how their ballots were marked, they could have folded the ballot several times over, concealing their selection. Again, let me emphasize that in the six elections in El Salvador since 1982, the literally thousands of official and unofficial observers and the press have underscored the integrity of the voting process and vote counting.

A NEW UNITED STATES POLICY TOWARD EL SALVADOR

Senator **Leahy**. A number of months ago Senators Kasten, Dodd, Lugar, and myself—Senators Dodd and Lugar as members of the Western Hemisphere Subcommittee in Foreign Relations—wrote to Secretary Baker about El Salvador. We asked him to explore with us whether there might be enough common ground to devise a new policy based on the kind of bipartisanship that we have all spoken about here today.

I thought I would give it a try. I was not sure just how far we might get with it then. But when I wrote that letter—we have not had that meeting—but when I wrote that letter, what I wanted, what I still want, is to see whether we can for the sake of our country and for the sake of the people down there, to start an approach that could end this ghastly war.

I have to think about one of the first times I went to El Salvador and had gone through the normal, official functions. I had my brother-in-law with me who speaks fluent Spanish, and I wanted to get away from some of the official things. I was doing a certain amount of photography of the area and the people. And I went out to one of the refugee camps.

I remember this woman I photographed. I will never forget it. I still have the photograph in my office today. She looked middle aged. It turned out she was in her late twenties. I asked her what she was doing there. Her husband had been killed. A number of her children had been killed. A number of members of her family had been killed. I asked if they were killed by the forces of the right or the left. She said she did not know. I asked if she made any attempt to find out. She responded that, well, you just don't ask questions like that.

When I asked if she allied herself—this is over about a half hour conversation—with the right or the left, she said neither. She didn't understand that. She just wanted to live, to raise what is left of her family, to get out of this refugee camp. Now, that was one of the things that made an enormous impression on me in that first trip.

The other was on a drive to the airport as we were leaving, seeing bodies at two different places on the side of the road. I spent 8½ years as a prosecutor. I have seen a lot of dead bodies, a lot of people who had been shot to death. I've been on the scene of the crime and so on. It is something you do not get used to no matter how many times you have seen somebody violently killed. But at one of them, we stopped and looked, and it was obvious that somebody had been killed very recently—within 1 or 2 hours. Somebody was taking a picture, walking away. Others were just digging a hole. The body was going to be dropped into it. Other people were going about their business. Somebody was setting up a stand nearby to sell some food and so on. It is that commonplace of a matter.

I cannot help but see those and so many other images in my mind as the power struggles go back and forth from the guerillas to the leaders in the country. There are millions of people in between who really have as their only goal in life to live, to raise a family, to feed their children.

Senator Harkin talked about going from barrios, around the corner to mansions. And that is true. That is another thing that strikes you, the enormous spread between the very poor and the very rich, the lack of a large sustainable middle class that might bring civility to a country.

So, if we are going to do anything to help these basic situations, to let a mother know she can raise her children, a father know that he can live even if he expresses opinions—we are going to have to do something. And you are going to have to be willing to give Congress a way to debate our policy and even to cut back on aid to El Salvador. If, after a reasonable period, we do not think the policy is going to work or we do not have faith in the Cristiani administration we will need to reevaluate and try a new approach.

The Secretary sat down with the Congress to hammer out the bipartisan accord on Contra aid which was then accepted by people like myself who had never voted for anything involving Contra aid before. To move that through this committee as I did and on to the floor took a real leap of faith.

Now, the basic question—and I took the long way of getting to it, and I have told you things that you already know, but others involved in this should hear. Will the administration sit down and try to put together that same kind of a bipartisan accord here and not just say business as usual, but will they have a willingness to make some dramatic changes if we do not see improvements?

BIPARTISAN POLICY

Mr. **Aronson**. Senator, when we sat down to negotiate the bipartisan accord, there weren't any conditions on the table. We just said we are going to sit down and try to consult and come up with a better way. If you are proposing those kind of consultations, we are happy to engage in them. And I think that is what you are saying to me.

If there is a condition on the table that what we are trying to negotiate is a mechanism that is necessarily going to have a trigger where aid will be cut, I am not sure the administration believes that that is the right way to go. But we sure are willing to talk to you about policy toward El Salvador and happy to do that and would seek that opportunity.

Senator **Leahy**. I would welcome that. I am perfectly willing to come to the table without preconditions. Everybody in the administration knows my feelings on Central America, knows the amount of time I have spent with it, knows the steps I have taken. What I want is not to support ARENA or the guerillas. I want to see that woman in the refugee camp able to raise what is left of her family.

Mr. **Aronson**. So do I, Senator.

Senator **Leahy**. You know, one of the things that was interesting as I went through those refugee camps was that despite the number of people, the number of children, there was silence, a lack of laughter and talk, and so on. You did not see people smiling. Usually, no matter what the situation is, children kind of insulate themselves. You hear the laughter and see the smiles. You didn't there.

Mr. **Aronson**. Senator, I understand what you are talking about because anybody who visits that country who has a heart, as you do, and a conscience is going to be moved by that suffering. And we have difficult choices.

Part of the point I was trying to make before is that we waited too long to discover democracy in El Salvador. There as a time when the choices were easier where we could have used our leverage to defend and election in 1972 and perhaps—not necessarily, but perhaps—if we had, this terrible revolution would not have taken on the momentum it did.

I remember something Napoleon Duarte told me—and I said it in my confirmation hearings—after he was forced into exile. He told me he came up to the United States time and again trying to get somebody to pay attention to him. He asked to meet with every staff member of the Foreign Relations Committee. One person showed up. He said I came to your country carrying a lighted bomb in my hand begging you to cut the fuse, and you did not. He said now the bomb has gone off, and you want me to put all the pieces back together again neatly and easily and I cannot.

I think we have to learn the lesson from that period when we looked elsewhere. We were disengaged. We did not think that this was a struggle worth being involved in. And things got much worse.

We also have to do, as Senator Harkin said, redouble our efforts and find a new way not to just continue forever with a conflict, but to try to end it. I am prepared to work to do that.

There are also forces involved in this conflict who are not prepared to end it yet, and until they make that judgment, until they stop taking humbler campesinos in the countryside and murdering them because they happen to be an elected mayor, until they stop putting bombs in the homes of people who have left their children behind and think that they can take power through terror, we are not going to end this suffering either. These people you talk about will continue to suffer.

I think if there was ever a situation where we cannot afford to be divided and to have an internal war in American politics, it is El Salvador because it may wind up as a political disagreement among us, but we will not suffer the consequences. The people of El Salvador will pay the price for our disagreements and we do not have a moral or political right to do that.

I think the kinds of consultations you are talking about are necessary. We should begin them, and I am prepared to help and I know the Secretary is.

AID TO EL SALVADOR

Senator **Leahy**. Well, then come to the table with no preconditions. You mentioned earlier that you did not want to have a trigger. We'll put none, you put none and come to the table that way. Then see where we go because some may well make the argument that no matter what we do, it is not going to make a difference—that is something we ought to debate—or that we should do much more and then it will make a difference. You have that range of opinions. I think it is going to take a long, long time to discuss that back and forth.

But we have seen $5 billion go to El Salvador—which is an enormous amount of money. El Salvador is what? The third or fourth largest aid recipient now.

Mr. **Aronson**. But, Senator, can I say something about this?

Senator **Leahy**. Yes.

Mr. **Aronson**. I think you are not giving the Congress and the U.S. Government and the American people enough credit or the people of Salvador enough credit for what has been achieved. It is not true that this policy has simply been a failure. It is not true that things have not changed in this country.

Senator **Leahy**. The death squads still exist.

Mr. **Aronson**. Let me finish.

Senator **Leahy**. The death squads still exist.

Mr. **Aronson**. Senator, this is a country that for 100 years was a feudal society. There was no such thing as an election that meant anything. The first time I went to El Salvador, Ruben Zamora and

Guillermo Ungo's name were on a death list of 113 people published by the high command in a Salvadoran newspaper. Today, they are in the country engaging in democratic politics being protected by the high command. That is a profound difference. Tomorrow we could pick up a newspaper and something terrible could happen. But that is a profound difference.

This is a country where 20 percent of the land has been turned over to campesinos. This is a country where you now have a peaceful electoral process that historically never existed. It was a dream when Duarte and the Christian Democrats started in the early 1970's. A lot of brave people died for that dream, and we should not say that they have achieved nothing. We demoralize ourselves as a country and we demoralize those people if we say that nothing has changed for the better.

If I believed that $5 billion went to El Salvador and nothing had changed, I would not be up here saying we need to stay engaged. I do not believe this administration has, and I do not believe this committee would. It is not the case. Our policy has made things better. Have they made it a nirvana? Hell, no. This is a society that started out 500 years behind the time with terrible violence, with people living with no rights. Poor people in that country suffer greatly but they have something they never had before which is a chance to have the dignity that comes from being in a democracy. They also ought to have a chance to feed their kids, to build houses, to go to school, to have jobs, and we need to find a way to do this.

If Mr. Schieck had a chance to talk, he might talk about some of things we are trying to do there.

GENERAL QUESTIONS FOR AID

Senator LEAHY. I have a question I want to ask Mr. Schieck, and I apologize for taking this time. But the discussion we have had probably gives you an idea what it will be like when we do sit down at the table. I think we are going to have, all of us—those who have been very critical of the past administration policy, those who have been very supportive of it—to step back and do a nonrhetoric, honest evaluation of where that policy has brought us.

When I talked with the Secretary yesterday, I told him that we have to realize that sometimes we have gotten ourselves so wrapped up in Central America and so wrapped up with who wins political points up here, we forget the reality.

Mr. Schieck and I went to Vermont a couple of weeks ago. We found that it took longer to get to Vermont than to Central America. I believe we started out about 8:30 out at Dulles on a Friday night and arrived in Vermont at 11:30 on Saturday morning. It's similar to a situation I had here a few months ago where I went to Geneva for GATT negotiations and later that week went to Burlington, VT and back. It took 1 hour and 15 minutes longer to go to Burlington, VT and back to Washington than it did from Washington to Geneva and back. But we got there.

The trip to Vermont was for the Vermont-Honduras Partners project, and I was delighted you were able to be there.

WITHHOLDING ESF FROM HONDURAS

I understand that we are still withholding $70 million in fiscal year 1989 economic support funds from Honduras because of their failure to reform the economy. In fact, other aid donors have done the same thing—IMF, World Bank, the Japanese, and so on.

Now, are AID and the State Department united on this issue, or is the State Department going to say release the money so Honduras will put up with the Contras? Will the release of the money be tied up with the support of the Contras or will it be tied up with the reform of the economy?

STATEMENT OF FREDERICK W. SCHIECK

Mr. SCHIECK. Thank you, Senator.

The only problem with the long trip to Vermont was that I ended up spending so little time there, but it was an enjoyable morning.

To answer your question, yes; we are on this issue on Honduras. The withholding of the ESF is directly tied to the negotiations with the Government of Honduras on economic reforms. We have the full support of the Embassy in this respect. There have been numerous conversations held both here in Washington and in Tegucigalpa. I do not think there is any question that the issue is solely economic policy reform.

Mr. ARONSON. I could also speak to that, Senator, because I have sat in on meetings with the Secretary of State with Honduran officials and the two candidates for president. We have carried the same message which is the release of the ESF funds is contingent on economic reforms and particularly a standby agreement with the IMF because that is in Honduras' interest. If they do not do that, they are going to inherit a much worse economic situation, and we are cautiously hopeful that they are going to come to an agreement with the IMF.

Mr. SCHIECK. I might add, Senator, that one of the reasons we are able to stand firm on misue is that Congress approved the ESF allocation as 2-year funds, which removes the pressure for an end of the fiscal year obligation.

Senator LEAHY. Then you do not have to spend it or lose it.

Mr. SCHIECK. That's right.

Senator LEAHY. I think a lot of us want to help Honduras, but I want the help to Honduras to be because they are taking the steps that will help their own country.

It is an area that we have a lot of concern about, but we want them to be helped because they are helping themselves and not because they are helping the Contras. The Contra issue is an issue that should be handled by itself. We have worked out some steps on that, but let's make Honduras' improvements based on the real needs of their people and not because they are helping us on a very, very controversial U.S. foreign policy initiative.

PREPARED STATEMENT

Mr. **Schieck**. Agreed. I would like to have my statement placed in the record.

Senator **Leahy**. Without objection.

[The statement follows:]

STATEMENT OF FREDERICK W. SCHIECK

Mr. Chairman, I am pleased to appear before this subcommittee to testify on our proposed economic assistance program for the countries of Latin America and the Caribbean (LAC).

Economic and Social Trends

As the region prepares to enter the 1990s, we see encouraging signs in many countries that the economic problems of the 1980s are being overcome and that the stage is being set for more rapid, sustained economic growth and a widespread improvement in living standards. In the four Central American democracies, where the United States has critical security interests, per capita incomes rose in both 1987 and 1988. Non-traditional exports have been growing rapidly, particularly in Costa Rica, where they helped expand employment by about 12% between 1986 and 1988, and in Guatemala. And improvements in health, education and family planning indicators have been significant.

In the Caribbean, Jamaica's comprehensive economic reform program has contributed to rapid export diversification, and employment rose by 12% between 1986 and 1988. Jamaica's economic recovery continues, after being temporarily interrupted by Hurricane Gilbert. A recent evaluation of A.I.D.-supported private sector activities in the Dominican Republic concluded that they resulted in a net creation of 108,700 jobs between 1984 and 1987.

In the Andean region, Bolivia continues to follow the sound economic policies initiated in 1985 and experienced modest economic growth in 1988. In Ecuador, the new government has taken significant actions to bring down the rate of inflation and correct exchange-rate distortions, problems which had been aggravated by excessive government spending in the last year of the previous administration. On the other hand, the misguided policies of the Peruvian government resulted in a sharp economic downturn in 1988.

At the same time, we recognize that the economic and social gains that have been made are fragile. Heavy external debt burdens continue to limit the pace of economic recovery in many countries, and the flow of new external financial resources into the region remains disappointing. Less progress toward sustainable, export-led growth is evident in Honduras and El Salvador, where the pace of policy reform has been much slower. Social indicators in El Salvador, Guatemala, and Honduras, including literacy rates, lag well behind those of Costa Rica. And the narcotics production and trafficking continue to exercise a debilitating role in the Andean countries' economies and social systems.

Innovative and orderly solutions to the debt crisis, such as the Brady plan, and greater inflows of capital are needed to accelerate the economic recovery that has been made possible by the adoption of better economic policies. Broad and sustainable economic growth is essential for poverty reduction. It provides productive jobs and generates the public and private revenues needed to build more schools, more housing, and more health facilities, and to improve the quality of these and other essential dimensions of well-being.

Political Trends

In 1976, only four countries in all of Central and South America had democratically elected governments - the rest were ruled by dictatorships or military regimes. Today, democratic forces are prevailed throughout most of the hemisphere.

Recently, Ecuador held free, open elections, and transferred power peacefully to an opposition political party. Free, open elections have been held in El Salvador, Guatemala, Argentina and Bolivia. On the first of this month, Salvadorans swore in their new President, in a peaceful and democratic transition of power. Chilean voters demonstrated their desire for a return to democracy with a strong majority of "no" votes in the October 1988 plebiscite on the extension of the current regime's nondemocratic rule. Mexico's presidential election last July made clear the voters' strong desire for a more competitive, open political system. Jamaican voters demonstrated their continued support for democratic processes in February which brought the major opposition party back into office. And in Paraguay, a 35 year-old dictatorship was overthrown, with a new government being choosen through an electoral process which, despite imperfections, was a major step forward by that country.

There were, however, setbacks in Panama and Haiti. Although an overwhelming majority of Panamanians voted for opposition leaders in the May election, General Manuel Noriega's regime is still in power, thwarting the democratic process and oppressing the Panamanian people. On balance, though, the continuing trend toward democratization is very positive, even though many institutions are fragile and in early stages of development.

In Haiti, where we halted all direct government-to-government assistance in 1987 because of political turmoil, an electoral council has been appointed. As a result of this and other recent progress toward democratization, we are exploring with Congress the possibility of renewing some direct government-to-government programs, which would in addition to the non-governmental assistance that we arleady provide.

There is a close connection between economic growth and the consolidation of democracy and long-term political stability. Since the sharp economic decline of the early 1980s was halted, most LAC countries have entered a period of slow-to-moderate recovery. But the democratic governments in the region are under pressure to show more economic and social results. The more they do to accelerate growth and reduce poverty, the better they will be able to resist challenges by anti-democratic elements such as those which recently have sought to overthrow the governments of Argentina and Guatemala.

Our interests in the LAC region require that we support the LAC countries' efforts to accelerate economic growth and poverty reduction, and to strengthen the forces of democracy.

A.I.D.'s Strategy

A.I.D.'s strategy for addressing development problems in the region and making the 1990s a decade of strong economic growth and rising living standards focuses on the following interrelated goals: promoting faster and sustainable economic growth; ensuring that people have adequate opportunities to participate in the development process; and supporting democratic processes at all levels (electoral, legislative, and judicial). A broad array of assistance instruments -- including ESF, Development Assistance, food aid, and housing guaranties -- supports these goals. Joint programming of host government-owned local currencies associated with ESF and food aid also help assure that they are utilized in support of these goals and benefit the poor.

This strategy for broad-based, sustainable economic growth emphasizes productive employment opportunities for all as well as greater access to health care, education, and other social services. It also stresses the role of the private sector as the main engine of development. At the same time it seeks, through policy dialogue and significant ESF assistance, to promote economic policy reforms and cost-reducing management improvements in the public sector. A.I.D. stresses institution building and training for achieving sustainable development, and strives to apply advances in science and technology to its programs. We also realize that we need to continue and increase our emphasis on sustainable, economic growth based on sound environmental and natural resource management principles.

A significant portion of A.I.D.'s activities in the LAC region -- approximately 29% of the Development Assistance portfolio -- is carried out through private and voluntary organizations (PVOs), both U.S. and local. During FYs 1987-89 LAC funding for PVO activities averaged $119 million. Approximately 60% of this assistance is being channeled through local PVOs.

Women are more fully incorporated into A.I.D.'s development assistance programs as beneficiaries and participants through training, technical assistance, research, and evaluation. Significant employment opportunities for women have been created in countries where non-traditional exports are growing rapidly under programs strongly supported by A.I.D.

Promoting Rapid and Sustainable Economic Growth

The economic crisis of the early 1980s resulted in serious imbalances throughout the region. Reducing fiscal and balance-of-payments deficits, bringing inflation under control, and reversing capital flight were necessary for establishing an economic environment conducive for achieving rapid and sustainable growth. These stabilization policies were also essential for establishing the conditions needed to significantly reduce poverty. With A.I.D. support, many LAC countries have substantially completed their stabilization objectives. Nevertheless, stabilization efforts are still required in some cases -- most importantly, El Salvador, where the continuing insurgency has limited the capacity of the government to stabilize its economy.

Rapid and sustained economic growth in the 1990s and beyond requires a healthy world economy, continued access to markets in the United States and other developed countries, sound economic and financial management by LAC governments, development of a better educated and healthier labor force, and protection of the natural resource base. A.I.D. will continue to support market-oriented reforms to help foster this rapid and sustained economic growth. These policy reforms include reducing price distortions, privatizing the public sector, encouraging export expansion and diversification, and promoting labor intensive growth.

These reforms are central to sustainable, productive employment generation which permits broader participation in the benefits of growth. They will open up the private sector to small and medium-size entrepreneurs -- men and women whose individual initiative has been stifled or channeled into the "informal" economies of countries where legal and institutional barriers restrict market entry. These entrepreneurs have the ability to create jobs and to lead their countries onto a path of sustainable growth.

Cooperation with other donors in promoting sustainable growth has been institutionalized in the Caribbean since 1978 under the Caribbean Group for Cooperation in Economic Development. In Central America, consultative groups, strongly supported by A.I.D., were formed under World Bank leadership during 1988 for Costa Rica and Honduras, and in March 1989 for Guatemala. Efforts are under way to develop a consultative group for El Salvador as well. Japan is becoming a major donor in the region and has entered into several co-financing arrangements with the World Bank. A.I.D. is exploring opportunities for similar types of cooperation with Japan.

Progress toward economic recovery in the LAC region has been mixed, but in the A.I.D.-assisted countries as a group there has been a clear reversal of the sharp economic decline of the early 1980s. Costa Rica, Belize, and more recently Guatemala have adopted structural reforms which have placed them well on the way toward achieving sustainable growth.

Costa Rica's GDP growth has averaged 4.3% per year since 1983, and unemployment has fallen to the lowest rate in the region. This GDP and employment growth reflects a dramatic increase in export of non-traditional products to areas outside of Central America, from $128 million in 1983 to $440 million in 1988. Moreover, with the adoption of sound economic policies, Costa Rica has been able to garner some $200 million in economic aid from multilateral agencies and other donors. As a result, we are able to phase down our requested ESF level for Costa Rica to $57 million in FY 1990.

In El Salvador and Honduras, on the other hand, major additional policy reforms are needed in order to achieve sustainable growth. As was noted in connection with Vice President Quayle's recent trip to Central America, new adjustment measures, such as in fiscal deficit and exchange rate policy, are urgently needed in Honduras this year.

Regarding El Salvador, there has been some discussion of raising from 25% to 50% the amount of ESF which must be projectized. Having ESF available for balance of payments support is critical if we are to have an effective policy dialogue with the new Cristiani Government. We are optimistic that based on initial discussions, the new government will initiate important policy reforms. Without a growing economy which is producing new jobs, it will be extremely difficult to overcome poverty and deepen the democratic process. Our balance of payments support is critical to sustaining the economy, and the local currency produced concurrently with this support is financing a large portion of the government's capital costs for social and infrastructure programs.

In the Caribbean, economic growth has been strongest in the small nations of the Eastern Caribbean, where annual GDP growth rates from 1984 through 1988 averaged 5.5%. Jamaica's economic recovery has been facilitated by such measures as divestiture of state enterprises, tax reform, and export promotion. U.S. imports of Jamaican manufactures have grown by 65% annually since 1983. The GDP growth rate, which averaged 4.7% in 1986-87, fell to 3.0% in 1988 because of the effects of Hurricane Gilbert; but stronger economic growth is anticipated for 1989.

Among the A.I.D.-assisted Andean countries, Ecuador in 1984 and Bolivia in 1985 began to implement strong programs of structural adjustment. Unfortunately, Ecuador's program was interrupted by falling petroleum prices and an earthquake. However, the new government is seeking to reestablish the lost momentum for policy reform. Bolivia has adopted significant measures including: maintenance of a competitive exchange rate; tax reforms to reduce distortions and encourage production; trade liberalization, including a virtually uniform 20% tariff rate; and a substantial reduction in public sector employment, combined with a large-scale adjustment program to benefit those who lost their jobs. Economic growth has resumed in Bolivia despite continued low prices for its major exports. In 1985, Peru opted for short-term economic growth without much regard for longer-term effects. Now faced with a sharply deteriorating economy -- GDP fell by 7% in 1988 with a similar drop projected for 1989 -- the government needs to adopt strong measures to halt the decline and establish the conditions for sustainable growth.

Over the long run, sustainable economic growth -- particularly in the agricultural sector -- will depend to a significant degree on the extent to which countries protect their natural resource base. This protection is especially important for maintaining and enhancing the ability of small farmers to generate income from their landholdings. In Haiti, under an A.I.D.-supported project, CARE has addressed this problem by helping 17,000 farm families plant 5.2 million seedlings and by assisting in the development of ten central nurseries. In Honduras, more than 10,000 hillside farmers have benefited from an A.I.D.-supported project that has improved soil and water conservation on more than 35,000 acres of fragile land.

Earlier this year, we approved a new strategy for environmental and natural resource management in Central America. Our Regional Office for Central American Programs (ROCAP) is already in the final stages of design of a six-year, $50 million regional project to begin to implement the strategy.

Ensuring Adequate Opportunities for Participation in Development

Illiteracy, deficient educational and training opportunities, malnutrition, poor health conditions, and inadequate housing continue to be a problem in much of the hemisphere. Stronger economic growth in the short run facilitates improvements in human and institutional resources, thus strengthening long-run growth prospects as well as the outlook for democratic development. An economic growth strategy helps promote more equitable participation and broad-based income gains by creating jobs, encouraging small businesses, and generating revenues to extend coverage of health, education, and other social services. These services can also be extended through greater efficiency and the use of cost-recovery measures, as well as through greater use of the private sector.

We are making progress in ensuring that the benefits of growth are shared more broadly. I have already mentioned the substantial employment gains recently made in Costa Rica, the Dominican Republic and Jamaica. In the Eastern Caribbean, more than 4,000 unemployed or underemployed youths have found jobs as a result of an A.I.D.-supported, non-formal skills training project.

Expanding basic education -- the minimal level of skills, knowledge, and attitudes needed to live in a modern society -- is essential for providing the poor the skills they need to participate in development. We have focused on improving the quality and efficiency of educational systems at the primary grade level. Progress includes an increase in the average gross primary school enrollment ratio for the A.I.D.-assisted Central American countries, from 86% in 1983 to an estimated 91% in 1988. The efficiency of primary education also increased over this period, with the completion rate rising from 57% to 60% and the number of years needed to produce a sixth-grade graduate falling from 10.3 to 9.5. In Haiti, through PVOs, A.I.D. has helped raise the primary enrollment ratio from 89% in 1985 to 91% in 1988. In Jamaica, however, heavy external debt burdens and the need to maintain budgetary discipline have forced temporary reductions in educational services. The primary school completion rate has declined from 74% in 1985 to 69% in 1988. A.I.D. is responding to this problem with a new basic education project in Jamaica in FY 1990.

Training for managers of small and medium-size businesses is important for helping to prepare a cadre of entrepreneurs to lead a revitalized private sector into the 1990s. Microenterprises can also be important for sustainable growth and employment generation. To assist microenterprises and small businesses, A.I.D. supports both technical assistance and credit programs.

In Belize, 700 microentrepreneurs, including 117 women, have received technical assistance, and 773 loans for $1.25 million have been made. These activities have helped save 1,253 jobs and create 243 new jobs. The loan delinquency rate has been a relatively low 6%. In the Dominican Republic, loans to 566 microenterprises have enabled beneficiaries to increase their average monthly profits by 164%, and almost 2,900 jobs have been created. In Peru, A.I.D. has supported efforts by the Institute for Liberty and Democracy, headed by Hernando de Soto, to highlight the importance of the informal sector and its implications for microenterprise development throughout the LAC region.

Other targeted programs to improve the conditions of the poor are needed to ensure that the benefits of growth will be widespread. In Guatemala, the A.I.D.-supported activities of the Penny Foundation have enabled 585 small-farm families to purchase their own land and to farm it profitably with the help of technical assistance and production credit. Because of the success of this program, A.I.D. plans to provide additional assistance for private land purchase programs in Guatemala in FY 1989.

Small-farmer exports of non-traditional products have expanded significantly in a number of countries under A.I.D.-supported programs. In the Eastern Caribbean, for example, small farmers marketing through the Caribbean Agricultural Trading Company (CATCO) now account for about 10% of the region's non-banana fruit and vegetable exports. In Guatemala, more than 10,000 small farmers have benefited from a diversification program emphasizing winter fruits and vegetables.

A.I.D.'s child survival efforts have improved the health status of infants and young children through oral rehydration therapy, immunization, better nutrition, water supply and sanitation, and other programs. In Central America the infant mortality rate has fallen by 5 per 1,000 since the early 1980s: the 1990 target under the CAI, 58 per 1,000 (excluding Panama), may be surpassed. In El Salvador the infant mortality rate fell from 77 per 1,000 in 1979 to

50 in 1988. In Bolivia, preliminary data show steady reductions in the infant mortality rate since 1985. In Haiti, A.I.D. has helped lower the infant mortality rate from 130 per 1,000 in 1985 to 105 in 1988. Within the poor urban squatter settlement of Cite Soleil, an A.I.D.-assisted PVO has helped bring the rate down to 80 and immunization coverage up to 80% (compared to 16% nationwide). In the Eastern Caribbean, an A.I.D.-supported pharmaceuticals management project has lowered the price of medicines by an average of 44%. In the Dominican Republic, A.I.D. is working to reverse an apparent decline in health indicators for the poorest population groups through programs in child survival, health management systems, malaria and dengue control, family planning, and rural water supply.

In El Salvador there has been a particularly great need to assist displaced persons who have been forced off their land by the armed conflict. A.I.D. assistance for this target group includes health services, educational opportunities, and productive employment. Where families have returned to their communities, or permanently settled elsewhere, A.I.D. and the Government of El Salvador are supporting their reintegration with seed and agricultural supplies, home and community repair assistance, vocational training, help in obtaining land parcels, and training of local officials. Since late 1986 more than 10,000 people have received reintegration assistance, and an additional 25,000 are expected to be assisted before the end of FY 1989.

Also as a result of the armed conflict, there has been a need to improve and strengthen rehabilitation services for Salvadoran civilian amputees. A.I.D. initiated a program in 1986 to address emergency, short-term and longer- term needs. To date, A.I.D. has provided over $3.5 million in assistance, which together with nearly $4.0 million in matching contributions, is providing emergency medical care, helping to organize a patient support fund, training rural health workers in rehabilitation, and establishing an in-country prosthetic training and fitting program as well as a production-oriented prosthetic laboratory.

Supporting Democratic Processes

Economic growth will best benefit the citizens of the LAC region and support U.S. interests if it occurs in an environment in which people can participate freely and make informed decisions in local and national political processes; form labor unions, cooperatives, and other voluntary organizations; and have recourse to a fair and speedy judicial system. Therefore, a key element in U.S. economic assistance decisions is the degree of each country's commitment and adherence to democratic principles such as periodic, free elections; an independent judiciary; freedom of information and expression, including a free and responsible press; freedom of association; and respect for individual rights.

A.I.D. is providing direct assistance to LAC countries to develop and strengthen democratic values, practices, and institutions. Regional administration of justice (AOJ) projects provide training to judges and other professionals working in the justice system. The regional program implemented by the Latin American Institute for Crime Prevention and Treatment of Offenders (ILANUD) has helped develop seven bilateral AOJ projects. Other projects seek to strengthen electoral and legislative processes, to professionalize the media, to build organizational and managerial skills in community groups and local government, to identify development opportunities for Indian communities, and to encourage more constructive influence and participation by political parties and the military in achieving sustained democratic government.

Democratization is being further supported by a major scholarship program for study in the United States by disadvantaged individuals who previously have lacked access to such training. The Caribbean and Latin American Scholarship Program (CLASP) will have trained over 15,000 Peace Scholars by 1993. 12,200 will be under the Central American Peace Scholarships project (CAPS), 1,525 under the Presidential Training Initiative for the Islands Caribbean, and 1,740 under the Andean Peace Scholarship program. Through FY 1988, 9,652 Peace Scholars have started training, with over 4,000 expected to initiate training in FY 1989. We continue to target our program on women (40% of beneficiaries, having achieved 39% by the end of FY88), the socially/economically disadvantaged (70% of beneficiaries), and rural and urban leaders.

A.I.D. Support of Narcotics Awareness and Control Efforts

A.I.D. activities to help control narcotics production and trafficking also support U.S. efforts to promote the rule of law and reduce the corrupting influence of narcotics traffickers, who threaten the integrity of government authority and hinder balanced economic growth and development of legitimate private enterprise. Narcotics awareness projects throughout the Andean region have documented the harmful consequences of drug production and trafficking on these countries own societies and have increased public support for narcotics control measures.

The Government of Bolivia has acted courageously against narcotics production and trafficking, beginning in August 1987 with a program of voluntary coca eradication, which eliminated over 1,800 hectares of coca in the first year. The Bolivians have set a target of eradicating 5,000 hectares in 1989. Peru eradicated over 4,000 hectares of coca last year, and is continuing its impressive performance in the face of enormous physical challenges. Lack of security and threats from traffickers and armed terrorists continue to jeopardize Peru's efforts.

A.I.D. activities include development of alternative income and employment opportunities to provide coca farmers a safety net of services and options after destruction of their drug crops. We have discovered, however, that our efforts to provide alternative crops and income cannot succeed unless there is sustained and effective enforcement and interdiction -- activities which drive the price of coca down towards its production cost.

The Advanced Developing Countries

On an experimental basis we are working with Mexico, Colombia, Brazil, Uruguay, Paraguay, and Chile -- countries which were once major bilateral aid recipients -- to provide modest support for narcotics awareness programs, training, microenterprise development, health and population planning through the private sector, AIDS awareness programs, and environmental and low-input agricultural activities. These activities promote mature ties by leveraging complementary private funding, strengthening institutional relationships initiated under bilateral programs, and reinforcing a common approach to economic, political, and social problems.

FY 1990 Highlights

A program level of $1.147 billion in Economic Support Funds (ESF), Development Assistance (DA), and P.L. 480 resources is proposed for FY 1990 to support our strategy for achieving sustainable economic, social, and political progress. Of this total, $734.7 million (64%) is for programs in Central America, $206.4 million (18%) for the Caribbean, $161.4 million (14%) for South America, and $44.3 million (4%) for LAC Regional programs. As you are aware, the Administration is reviewing its 150 Account requests in light of the Bipartisan Budget Agreement and some future adjustments may be needed.

To support our goals of economic stabilization and sustainable economic growth, ESF resources of $544.6 million are proposed, primarily for policy reform to support economic recovery and growth. This level is essential for achieving minimum acceptable progress toward sustainable economic growth. These resources encourage governments to undertake necessary but politically difficult policy steps and provide them the means to mitigate near-term adverse effects of some of these policy changes. Now that many countries have achieved their principal stabilization goals, a large proportion of ESF resources supports policy reforms and other actions that promote long-term and broad-based economic growth.

Local currency associated with ESF programs plays a vital role in our balanced strategy. It supports productive credit requirements of private enterprises, finances key public services and infrastructure projects, helps governments spread the benefits of growth, and supports efforts of PVOs and other groups to meet basic needs.

ESF will also finance our expanded democratic development initiatives in such areas as election assistance, legislative management, journalism, and leadership development. Assistance to ILANUD will strengthen it as a center of excellence for judicial training and reform. Country-specific AOJ programs, including activities being initiated in Argentina and Chile, will operate in nine LAC countries.

In addition, ESF will provide a significant share of the funding for the Peace Scholarship programs in Central America and to a lesser extent in the Caribbean and South America. Projectized ESF will also support private sector programs as well as infrastructure restoration and development.

In the Development Assistance (DA) category, for which a total of $370.9 million is proposed, agriculture, rural development, and nutrition programs account for $144.6 million, or 39% of the total. Our strategy in this sector seeks primarily to support income-generation activities through diversification into non-traditional export crops, while disseminating technologies to promote sustainable agricultural practices that would enhance the natural resource base and protect the environment. The FY 1990 program includes new projects to diversify and improve the efficiency of agricultural production and marketing in the highlands of Bolivia and Peru. Other new starts in FY 1990 will enhance sustainable agricultural practices in Costa Rican watersheds and will increase small farmer access to owner-managed irrigation systems in Guatemala. Improved natural resource management and environmental education will assist private and public institutions in Ecuador to reverse the trend toward degradation of lowland tropical forests and highly erodable steep slopes.

The population planning portfolio ($23.0 million, or 6% of the DA program) emphasizes the use of private and commercial mechanisms, especially through new population programs in Central America and Bolivia. Income generation and improved management efficiencies aimed at program sustainability are major objectives in ongoing programs.

The health portfolio ($59.5 million, or 16% of the DA program, including $26.0 million for child survival programs and $3.0 million to combat AIDS) emphasizes more efficient delivery systems for public health services and the development of private sector delivery mechanisms. New activities include private sector health initiatives in Bolivia and the Dominican Republic and a maternal and child health program in Central America.

Our activities in education and human resource development ($75.8 million, or 20% of the DA program) include support for training under the CAPS program for Central America, the Presidential Training Initiative for the Island Caribbean, and the Andean Peace Scholarship program, as well as management, labor, and vocational training programs. Basic education programs (more than $18 million in FY 1990), have priority in countries where literacy rates remain low, although availability of basic education is broader than in other regions of the world. The FY 1990 program includes significant support for new projects to promote management education and training in the Eastern Caribbean and basic education in El Salvador, the Dominican Republic, and Jamaica. Given the earmark for basic education, our ability to devote a significant amount of funding under this account for training programs is dependent upon maintenance of adequate funding for the overall Education account.

The private sector, environment and energy portfolio ($68.0 million, or 18% of the DA program) is particularly important in the

LAC region. Tight funding restrictions for this account are not commensurate with its strategic importance in supporting private sector development, small and medium-size enterprises, privatization, improved public administration, efficient use and development of energy, and environmental and natural resource management. An existing regional project will be redesigned to more effectively support conservation of biological diversity and tropical forests and otherwise to improve management and conservation of a natural resource base that is deteriorating rapidly, yet upon which sustainable development ultimately depends.

Additional U.S. resources providing critical support for our objectives in the LAC region will be made available under the P.L. 480 program, which frees scarce foreign exchange for other priority uses. Local currency generations from the sale of P.L. 480-financed U.S. agricultural products are integrated with our overall DA activities that are designed to assure that the benefits of development are shared by the majority of a country's citizens. Donated food addresses important nutritional needs by targeting the poorest and most vulnerable segments of the population. The FY 1990 request is $231.3 million, of which $164.0 million is for Title I/III and $67.3 million is for Title II.

A.I.D. requests reauthorization of the Trade Credit Insurance Program (TCIP) through FY 1992, with a commitment level in FY 1990 of $200 million, consistent with the February 1987 full funding report to the Congress on implementation of the Central American Initiative (CAI). Under the TCIP, annual authorizations ranging from $200 million to $300 million have permitted A.I.D. to issue guaranties to the Export-Import Bank (Eximbank) for export credit insurance administered by Eximbank to support U.S. exports to the Central American private sector. Through October 1988 a total of $611 million in letters of credit had been confirmed under the program.

Concluding Remarks

Mr. Chairman, the assistance we are proposing for FY 1990 constitutes a balanced program in support of economic, social, and political goals which are closely interrelated. Economic growth is essential both for providing the resources needed to relieve poverty and for establishing the kind of environment in which democracy can flourish. A wider sharing of the benefits of growth is needed to avoid the type of inequitable growth patterns which in the 1970s led a number of countries into armed internal conflict and repression by undemocratic regimes. And without democracy, the sustainability of growth and poverty alleviation will be in question, and the ability of individuals to enjoy basic rights of participation will be restricted. U.S. interests in Latin America and Caribbean make it imperative that we continue to support fully the democratically elected leaders of the region in pursuit of the goals we share.

Thank you.

ESF FOR COSTA RICA

Senator LEAHY. I notice also that the United States provided $90 million last year in economic support funds to Costa Rica. This year the administration is proposing to cut that to $57 million I believe it is, about one-third, a little better than one-third.

I have had long talks with President Arias about this and about what he is doing. He seems to be playing a large role in the peace process in Central America. Yesterday, when I was talking with Vice President Quayle, he told me that he had long conversations with Arias in conjunction with his last trip down there.

We have built a lot around what President Arias did. We built around it willingly and enthusiastically. Others in the Government acted reluctantly based on political reality. But either way, we have invested a lot of the United States into that.

Now, don't we send a signal to the rest of Central America by cutting a third of his aid. Are we not saying, "Don't work with the United States in a peace process because it is going to cost you?"

Mr. SCHIECK. Unfortunately, a negative signal might be sent by the fact of a $33 million cut. But we have tried to explain the basis for this. First of all, the overall ESF account is not a growing account. There are great demands for ESF worldwide. In Costa Rica, the need substantially lessened.

If Costa Rica is being penalized, then it is because of their success in economic reform. For instance, in the last 5 years, their nontraditional export earnings have gone from $128 million a year to $440 million a year. That all represents foreign exchange. Costa

Rica's GDP growth rate and per capita income are the highest in the region, and their unemployment is the lowest. Because they adopted the right kinds of reforms, the World Bank and the Government of Japan are providing structural adjustment loans totaling $200 million in cash transfers.

Our feeling, therefore, is that given the priorities and tradeoffs inherent in trying to allocate the scarce ESF resources, Costa Rica is a country where we can legitimately reduce the ESF transfers and release them for more urgently needed programming elsewhere.

It can be perceived as a signal, and we have tried to discuss this with the Costa Rican Government and with members of the Congress. But essentially the issue really is that the country is doing quite well. They are earning a large amount of foreign exchange right now, and they also are getting increased assistance from other donors. We felt, therefore, we should reduce their ESF allocation.

Mr. ARONSON. Could I speak to that for 1 minute, Senator?

Senator LEAHY. Sure.

Mr. ARONSON. If there is a country in Central America where the kind of people we were talking about are treated with dignity and some chance for economic opportunity, it is Costa Rica.

One of the things we are trying to do with the Costa Rican Government is to make them an early candidate for debt reduction under the Brady plan. I would underscore the point that Mr. Schieck made that there is no will, interest, desire, or secret agenda to in any way punish Costa Rica for its leadership in the peace process. As you know, we have worked closely with President Arias. In fact, if we can help them on the debt reduction end, that will provide substantial resources. They have earned their ticket to the Brady plan by the economic reform program they put in effect. They are now trying to join the GATT which we support, and we intend to work closely with them to support them so hopefully their negotiations with the commercial banks can move forward and they can get substantial debt reduction in that area.

Senator LEAHY. Any one of us who has been in public life any period of time at some point or another has been given one of those posters that in one way or the other says, "Just because you're paranoid doesn't mean the SOB's aren't out to get you." There are some in Costa Rica and some on the Hill who feel that this cut in aid to Costa Rica was a parting dig by one member of the outgoing administration who was very unhappy with Mr. Arias' lead in the peace process. You perhaps heard the same rumors.

Mr. ARONSON. I've heard it, and personally it does not give me any pleasure to have to defend a budget that cuts aid to Costa Rica. But I think, as Mr. Schieck is making the point, on the merits, given what ESF was intended to do, he feels—and I think the administration felt early on that it had no choice.

The reason I made the point about debt is that we are working very hard to help Costa Rica economically in another avenue while the committee deliberates on this issue.

Senator LEAHY. Let me tell you, as chairman of this subcommittee, if there is one country in Central America that is going to have a very sympathetic ear from me, it is going to be Costa Rica.

Senator Harkin.

Senator HARKIN. Mr. Chairman, I will back you up on that all the way.

Mr. Aronson, just listening to you, what you just said about Costa Rica, Mr. Chairman, I would just point out that is a distinct change in policy from the previous administration. Now, you do not have to answer that. This is my observation because if, in fact, we are not going to punish Costa Rica but if, in fact, you are looking at other ways of helping Costa Rica, that is a distinct change and one which I applaud wholeheartedly. I congratulate that.

GAO REPORT ON ILLEGAL FUEL SALE BY EL SALVADOR

Mr. Secretary, the GAO in a report I commissioned found that the Salvadoran air force had received about $801,000 in cash and credits for the sale of fuel purchased by the U.S. military assistance fund. The GAO also included those sales constituted violations of the 1986 and 1988 sales agreement between the United States and El Salvador and the Arms Export Control Act, as well as the Boland amendment. The person in charge of that operation at the time was, of course, a person we know, Bustillo.

The new Salvadoran defense minister, Larios, has offered to pay back that $801,000 to the U.S. Government. Are we going to accept it?

Mr. ARONSON. If we can, I assume we will. Do you know the answer, Fred?

Mr. SCHIECK. No.

Mr. ARONSON. I am aware of the case. I know that the government, to its credit, acknowledged it happened, and they say they want to pay it back. And if they will send us a check and we can accept it——

Senator HARKIN. And I am not trying to entrap you. What I am trying to say is that——

Mr. ARONSON. I'll sign my name.

Senator HARKIN. I hope we take it back, but I hope that we find out that it is not just our money that we have given them that they are now giving back to us you see. I would hope that we would—and I can tell you I am going to continue with the GAO through this committee and otherwise to find out where that money went. What did Bustillo do with that money? Where did it go?

Mr. ARONSON. Senator, the only thing I would say is I do not know if it has been established that the head of the air force, General Bustillo, was personally involved. I may have been, but I do not know if that has been established.

Senator HARKIN. What I understand is that the fuel arrangement agreement was made between Felix Rodriguez and Bustillo.

Mr. ARONSON. I do not know the facts. But it is being investigated, and we will work with the committee and the GAO to try to uncover the facts.

POLITICAL CHANGE IN EL SALVADOR

Senator HARKIN. We have spent almost all the time here on El Salvador and, of course, that is high on the agenda here, obviously, because of the money that we have invested and continue to invest in El Salvador and some of the things that are happening there.

I would just close off my portion on El Salvador by saying that in some ways I am sympathetic with you in terms of not wanting to discourage or depress the Salvadoran people by saying that they haven't made any progress. But we have to be realistic, and I guess I see it from the standpoint that here is a group that started as a paramilitary death squad activity group, ARENA, that now controls the executive, the supreme court, and the national assembly. Now, I am not saying that they are still that same kind of death squad group. They have changed. There have been some moderates. Cristiani has come into it. He is not of that ilk, but there is still that struggle going on within ARENA between those two factions.

To the extent that we can support the moderates, we ought to be doing it, and I am sure that you are doing that. But we do have to recognize that those people are still around and that is why I went into all of that with you.

Mr. ARONSON. Senator, I think it is good to recall that, the origins of some of the people in that movement and some of the things that they have been involved in, and those are real concerns. And I did not mean to suggest that we take them lightly.

You know, if you look at every institution in El Salvador, there are really two wings. One is a democratic, modernizing wing, and the other is going in the opposite direction. What we have been trying to do over the last 7 years is to try to ally ourselves in each case with the democratic and modernizing wing in a political struggle for control. We need to continue that with every institution in the country.

One of the reasons I make the point I made about cutting military aid is, in addition to the fact that I think it would encourage the FMLN in violence, if the Salvadoran military responds as it did in the San Sebastian massacre and, in fact, does what we asked them to do and does the hardest thing that any military force in Latin America can be asked to do, which is to clean their own house and cashier out their own people, and then the signal they get back is we're going to cut their aid, it seems to me then you undermine the political standing of those forces within that institution who are trying to move it in a different direction because those who, as I tried to describe, say don't play the Americans game will say, look, we did what you said. We go through this difficult process. We cashier out our fellow officers for human rights violations, and then the Congress responds. What do you get for it? We get less aid than we did a year ago when we were not doing those things.

So, part of what we need to do—and I understand these are difficult calibrations and they have to be done sincerely, not just as an excuse to provide unlimited aid—is to ally ourselves with those moderates and those modernizers against the troglodytes in every institution. I think we have done that over the last 6 years, and I think it has made a difference. And it is frustrating and difficult. I believe that as we have seen in other parts of the world longstanding conflicts that people thought were intractable like Angola, like Namibia, like Afghanistan, maybe Kampuchea, and Vietnam, we have seen all over the world this sort of worldwide weariness with violence and conflicts and a recognition of the super powers and others that we have to all turn back toward domestic needs.

We need to apply that new thinking, to give it a term, to Central America if we can. But we are not the only actors in the drama, and I do not think Joaquin Villalobos is engaging in much new thinking right now. He is thinking about which member of the ARENA Government would be most politically useful to try to murder. So, we need to make sure that the Cubans and the Nicaraguans and the FMLN and all of those who also prolong this conflict begin a different process. And that is not going to be easy.

But I think, frankly, the kind of discussion we have had today is a marked contrast to the kind of debate that we used to have on Central America. I appreciate the civility and the decency and the tone of it. We may disagree about tactics, but everybody around this room is trying to achieve the same goal which is peace and democracy.

Senator HARKIN. If I might be so bold, I would just say that you are a marked contrast to your predecessor too, much for the better. I might as well say it.

NICARAGUAN ELECTIONS

I want to finish, Mr. Aronson, on something else, on Nicaragua. We haven't even touched on Nicaragua yet, and time is getting late.

There was a recent article in the June 21 New York Times entitled "Anti-Sandinista Wary on U.S. Aid." I am sure you have read it. It was one on Wednesday, June 21. It is my understanding that the CIA is operating under an earlier finding that took place back in the early 1980's that the CIA continues to operate within Nicaragua and to gather intelligence.

But now what I am concerned about is the upcoming election. Again, I will just review it for you. I was the author of putting about $2.2 million into NED and AID for the Chilean elections to get those parties organized down there—$2.2 million. There was about $1 million in NED and about $1.2 million in AID. And that had, I think, a very successful outcome. But it was all overt aid. They knew it was there. It was all above board. It was used to help the people, the parties, all the multiple, different parties in Chile, to teach them how to organize, how to campaign effectively, how to register because of the registration requirements that Pinochet had put on were kind of onerous, operate within the law.

Well, I also supported putting money into NED and AID for Nicaragua overtly because I think the same thing ought to apply there. I think the parties and the people who are outside of the government now ought to have the ability to know how to organize, to function, to register, to do everything they can to get their people out to vote in the next February elections.

So, we put $2.2 million into Chile with 13 million people. We now have $3.5 million going into Nicaragua with 3 million people. A little bit of difference there. That is fine. As long as it is overt, I do not have any problems with it. I support it. What I am concerned about, what this Senator is concerned about, is the fact that the CIA involvement in Nicaragua may lead to covert activities, covert amounts of money over which we have no control on this committee, going in to disrupt, to put money into different places, to determine the outcome of that February 1990 election.

So, I am really concerned about this because, obviously, the New York Times article said that the administration has not decided whether to undertake any new covert operations in Nicaragua. It is sort of hanging out there.

I cannot think of anything that would be more damaging to United States interests and to the people of Nicaragua who do want free and open systems than for the CIA to start getting involved again down there. I mean, their record is a sordid one all over Central America, Guatemala, also in Nicaragua, the mining of the harbors, the drafting of assassination manuals. Now we have the possibility of the CIA being involved again in Nicaragua with the upcoming elections.

It is my intention to do whatever I can to forestall that possibility. I believe nothing would play into Mr. Ortega's hands better than for the CIA to continue its involvement and to be involved in supplying covert aid to anti-Sandinista parties within Nicaragua. I am hopeful that in your position that you would support that, and I would hope that you would do whatever you could to use your influence in the administration to get them to get the CIA out of that electoral process in Nicaragua.

Mr. ARONSON. Do you want me to comment on that?

Senator HARKIN. Any comments?

Mr. ARONSON. First, let me just say something about the electoral situation in Nicaragua. The elections will have legitimacy in the end if the rules and the process and the atmosphere in which the elections are conducted have legitimacy.

One of the things that disturbs the administration is that in recent months and very recently, the Government of Nicaragua seems to have taken a decision to be closing down internal space, to limit observers, to limit the capacity of foreign diplomats to even observe political events. It seems to me that that is a disturbing trend, and I would hope that the members of the committee could impress upon the Government of Nicaragua that in the eyes of the Congress, in the eyes of the administration, closing down space, limiting observers, providing a playing field that is not level will undermine the legitimacy of the result.

We are not looking for this process to fail. The President said that he would accept the result if the processes are legitimate, but we also are not going to give an endorsement to a process that isn't fair.

As to the other question that you raised, as you know, Senator, the issue of how Congress and the administration can cooperate on debating intelligence policy and formulating policy with regard to intelligence agencies has been a contentious issue. Congress established a process for dealing with those sets of issues, established institutions, intelligence committees in the Senate and the House, and by its own decision has said that is the proper venue for those issues to be discussed.

I happen to think that that is correct. Therefore, I am not prepared to respond in an open session and I do not think I should be asked to on matters that belong in a different venue. I am not saying they are not legitimate issues to be discussed.

DISCUSSING CLASSIFIED INFORMATION

Senator **Leahy**. Let me just interrupt, Mr. Aronson.

As both you and Senator Harkin know, we periodically have questions here where the witness—it has occurred with the Secretary of State and others who have testified—that certain items would have to be in a closed session, a classified forum. Especially when we are asking questions from administration witnesses, we leave it to them to make the determination if to answer a question, they would have to go into a classified subject.

It has been my position as chairman, and certainly as the former vice chairman of the Intelligence Committee, to honor that. If the Senator asking the question wishes to pursue it, we will pursue it in a classified form, either verbally or in written form in a classified annex.

Obviously there are certain restrictions we sometimes place on aid levels in the Appropriations Committee that do affect classified programs, and we always inform the Intelligence Committee what we are doing, but sometimes the determination is made by the Appropriations Committee itself.

With those broad brush strokes, feel free to answer Senator Harkin's question to the extent you wish to in open session. If there are areas you feel you cannot answer, then I suggest that you and Senator Harkin may want to discuss that privately and then determine if there is something we should put in the classified annex of our report.

Mr. **Aronson**. My response has nothing to do with the merits of the question or the administration's position on it. I do not want it to be taken as that. It is simply that I think, as a matter of principle, it is best to discuss intelligence matters in that venue.

I also think that regardless of this particular situation, there is a potentially dangerous slippery slope when you start to fence off any country regardless of the merits in an open session for intelligence activities because once you start down that slippery slope, countries that are not fenced off are going to say, well, I am not prohibited, therefore something is going on. You can potentially open, I think, to mix my metaphor, a Pandora's box that could wind up complicating many issues in many parts of the world on sensitive matters. So, I guess I would plea that on this one that we try to find a way to talk about it privately.

I would just note for the record that that New York Times article had a headline that is not reflected in the body of the story. The reporter called me and I simply said the same thing, that I do not talk about intelligence matters with reporters. Based on that, he made a conclusion that the administration was trying to do something or not, preserve options or not, that was totally unwarranted. But you cannot track readers to a story with an ambiguous qualified headline. I guess that one looked better.

Senator **Harkin**. Mr. Aronson, I appreciate your position and the chairman's position on this.

One of the reasons that I have thus far avoided having secret briefings on this issue is because I want to talk about them. I want to talk about them in this forum, and I want to talk about them in public.

When I was in the House, we passed a law that said that the CIA was forbidden to be involved in assassinations. Then they turn around and write an assassination manual for Nicaragua.

We have international laws constraining us from mining harbors and yet the CIA was involved in it. They were operating the airplanes, mining the harbors.

I think the U.S. citizens, the taxpayers, have a right to know about these things and should have them discussed in open session to the extent that we can. That is why I am bringing it up here because I feel very strongly that while I feel we should be involved overtly in helping political parties establish democratic footholds in Nicaragua or Chile or anyplace else, the Philippines, anywhere else, that once the CIA gets involved in it, it blows the whole thing to pieces. Usually somebody finds out about it anyway.

I think Nicaragua is a special case. I believe this should be laid to rest at the earliest possible time that the United States and the Central Intelligence Agency will not be involved in any way in the upcoming elections in Nicaragua, that we are going to do it overtly. We will supply the money through NED and through AID above board, and for the OAS for the international observers, but the CIA will not be involved. I am just telling you that is what I think we ought to be saying forthrightly and we ought to make sure that that happens.

Mr. ARONSON. Senator, the only thing I would say is that those who hold the position that you espoused I would hope would impress upon the Government of Nicaragua the need not to restrict the use of NED funds because one of the things that they have done in their electoral laws is prohibit or at least by law they have limited and prohibited those kinds of funds. Now, they say they may waive it. They have put a 50-percent involuntary donation to the Government of Nicaragua on funds going to parties.

That is why I made the point about opening space. I think it is important, regardless of where anybody comes down on this issue, that those who really believe that this should be an overt process with public funds to impress upon the Sandinistas that they have an interest in that as well and to ensure that those funds will be spent.

I would note that the House just cut the funds that were added to the supplemental in half for NED for Nicaragua last week which in some ways makes it harder for those who are arguing for overt funding.

SUPPORTING FOREIGN ELECTIONS

Senator HARKIN. They have $3.5 million. That is for 3 million people. We only had $2.2 million for 13 million people in Chile. It would seem to me if you just did it on a per population basis, we would have a heck of a lot less than that in Nicaragua.

Mr. ARONSON. But, Senator, you are comparing situations that are very different. In Chile, you had during the plebiscite political parties and democratic institutions which, despite great repression, had a long democratic history and had resources and had professional ability and had many opportunities that frankly the democratic opposition in Nicaragua has not had. With an environment economically as devastated as the Nicaraguan economy is right now, it is particularly difficult for democratic political parties to operate.

Finally, I would say that as much as the Chilean democratic opposition faced a dictatorial situation, which they clearly did, inside Nicaragua over 10 years, you have a government which has created the army as a wing of a political party. It is the Sandinista army. It is not the army of Nicaragua. The interior police is at the service of their party.

Senator HARKIN. The same way in Chile.

Mr. ARONSON. Well, I am not trying to say Chile was not a dictatorship, but I think that the level and degree of control is even greater in Nicaragua so that I do not think population is the only legitimate measure for what resources ought to go in there under NED.

The only other point I would make is that in the last several weeks in the Sandinista press there has been a drum beat of attacks on the National Endowment for Democracy and suggestions that they may not allow them even to operate. I hope that you can allow them to operate.

CIA INVOLVEMENT IN FOREIGN ELECTIONS

Senator HARKIN. I will do everything I can, but as long as this administration is holding out the threat, the specter, that the CIA is going to be involved, there is little that I can do or that anybody else can do. You have a situation now where $1 buys 28,000 cordobas, and $3 million buys a lot in Nicaragua.

You look at it, as I said, compared to Chile. I do not care. You can talk about the different structures and stuff. That is a lot of money going in.

I dare say I will do everything I can to ensure that NED, AID, the OAS, has every possibility of operating in this election overtly. But I do not know if I can do it in good faith if you have the CIA down there mucking around and trying to screw things up down there.

The fact is because of that finding, the CIA is involved. We know that the CIA had promoted demonstrations by the Nicaraguan opposition. That is what got former Speaker Wright in all that trouble because he said it, so I can say it now. It is out.

Mr. ARONSON. But, Senator, I would make one plea when you say things like that. People will go to jail when we say things like that, and we ought to be sure we know the facts. I honestly mean this. People went to jail the last time.

Senator HARKIN. Mr. Aronson, I am reading from a New York Times article.

Mr. ARONSON. I know, but that is different than a——

Senator HARKIN. The charge of CIA involvement also took on serious political implications here in late September when Jim Wright, then Speaker of the House, said the CIA had promoted demonstrations by the Nicaraguan opposition in an effort to promote the Government. You say people go to jail because we say things like this?

Mr. **Aronson**. Sometimes.

Senator **Harkin**. Well, what I am saying is that the people of this country deserve to know the truth about what the CIA has been doing in Nicaragua.

Mr. **Aronson**. Senator, the only point I am making—it's not on the merits of your argument—is that this issue be joined in the proper institutions that the Senate has set up. I would hope that you would work with your colleagues on the Intelligence Committee and, obviously, you are going to pursue a certain policy. That is what you were elected to do. The only thing I am saying is it ought to be done through the institutions that were established by the Congress itself to deal with these matters. And that is my only point. It is a point about process, not the issue.

Senator **Harkin**. Well, this is a public forum. This committee is involved in funding these operations. I have put my neck on the line because I have supported the money for the overt operations in Nicaragua, and now I find that that may be undermined. I am getting pretty hot about it, as you can probably tell.

But I am just going to close by reading this article from La Prensa. "What more could Daniel Ortega want than to cry out to the world that the CIA is helping the opposition and that the democratic opposition is a kind of a civilian Contra that has sold itself to imperialism?" Do you disagree with that? Do you disagree with La Prensa?

I will just read it again. "What more could Daniel Ortega want than to cry out to the world that the CIA is helping the opposition and that the democratic opposition is a kind of a civilian Contra that has sold itself to imperialism?"

Mr. **Aronson**. Well, the only comment I would have is that regardless of the truth or the facts, I suspect that the Sandinistas will make that claim throughout this election process.

Senator **Harkin**. But if we in this Congress have specifically forbidden the CIA from doing that, and this administration has forthrightly said that the CIA will not be involved, then I do not care what Ortega says.

Mr. **Aronson**. But, Senator, again I would say this has nothing to do with the situation in Nicaragua. I would just hope that you would consider the precedent that that sets because once you start down that road of fencing off countries, regardless of the merits, the Congress will face grave pressures in the future in many circumstances where you will not want to do that, but in another country in another part of the world where the situation is totally different, the absence of the prohibition will be taken to send a message because it was done before with regard to a different country. I think it is a serious matter and it ought to be considered in terms of a larger foreign policy matter regardless of how this particular issue is settled. That is the only point I am making about process.

Senator **Harkin**. But we have done it before with the Contras with the Boland amendment and everything else. We have done it before. The Congress speaks on those issues periodically and we take certain positions. We have done it before.

Thank you very much, Mr. Chairman.

CLOSING REMARKS

Senator **Leahy**. Mr. Aronson, Mr. Schieck, I will have questions for the record, and I know that we have taken you both way beyond the time we proposed.

Let me just close with this, and it is partly prompted by the exchange between Mr. Aronson and Senator Harkin.

We have fenced such funds before, as in the Boland amendment. We have done a number of things in El Salvador and in Nicaragua that in many ways has greatly affected our foreign policy worldwide. Now, I am not suggesting that we not be interested in what goes on in our hemisphere. I am not suggesting that the United States as a worldwide power does not have concerns worldwide.

What I am saying, though, is that in the past 8 years there has been this unholy reliance on Central America, one that seems to base our whole survival as a Nation, our whole strategic interest, on seeking either a military solution or a covert action solution in Central America. I recall a previous Secretary of State who announced that the United States was going to draw the line against international communism in El Salvador.

I was in Germany about that time. I met with a couple of NATO ministers. I remember one of them saying, "Oh, this is great." He said he now knew what the United States' priorities will be, fighting international communism in El Salvador. He said he got a map out to find out just where in heck El Salvador is. Of course, we could now tell our troops they could all go home. We do not have to worry about anybody coming in from East Germany or coming in from Eastern Europe attacking Europe. We know that the real threat is El Salvador. I explained to them that I was not a member of the administration and he should probably pass that message on elsewhere before the sarcasm got too deep.

We end up dealing with the ayatollahs of Iran in order to continue a Contra policy. We substitute a covert action policy for a foreign policy. People will be writing Ph.D. dissertations for 25 years on all the major foreign policy mistakes made because of Central America.

We have a chance to start anew. And all I am saying is let's start anew both for the good of our Nation, but also for the good of the people who are down there. Let's keep the whole thing in perspective. We are not about to be threatened by armies marching on the United States.

But there is a real threat in Central America. A threat of poverty, hunger, disease, and malnourishment. I would like some day to see us go back to where we might consider not sending down billions of dollars, a huge number of American troops, and taking overt or covert actions, and instead sending down carpenters and teachers and farmers, agronomists, somebody who will teach you how to rotate crops, paramedical people, physicians assistants, someone who can teach you how to fit a prothesis if you have lost a leg or an arm from a mine. Those are the real enemies in Central America.

I do not take a Polyannic view that we could just change our policy and 100 years of feudal systems will change overnight. But I hope the new administration understands the real enemies in Central America far better than the last one did.

Mr. ARONSON. Well, Senator, I think we do more of those kinds of things in Central America than somebody who heard this hearing might imagine. Perhaps next time we will have a chance to talk a little bit more about what we try to do through AID and economic assistance.

But, as you know, the thrust of our policy under the bipartisan accord is to use diplomatic and political means to try to enforce that treaty and achieve a settlement of the conflicts in both El Salvador and Nicaragua. As the bipartisan accord makes clear, if we can achieve that goal and if we can bring lasting democracy and peace to Central America, then we can create the conditions where those teachers and that economic assistance can really make a difference.

One of the sad things about El Salvador is as quickly as we build bridges, the FMLN blows them up, and Sandinista economics unfortunately has helped make the poor people of Nicaragua even poorer.

But the precondition for doing something for ordinary people down there is peace, and Oscar Arias was right when he said without democracy in Central America, there will be no peace.

I honestly think that we have a unique opportunity in the next months and years to end those wars down there. But we also have to understand that there are people who do not share the vision that you and Senator Harkin and others here talked about. There are people whose priorities are not—those humble campesinos and those teachers—their priority is to hold and take power through violence and they come from the extreme right and they come from the extreme left. If they triumph, those people whom you care about will be the ones who pay the greatest prices because the middle class will flee as they have in many instances already. And some of them will come here. It is the poorest of the poor who will stay behind under a dreary dictatorship that rules in their name but keeps power on their backs.

So, I think we have to fight all the enemies of the poor in Central America, and that is poverty and malnutrition and lack of education and economic structures that are rigged against them and also the would-be rulers who think that poor people do not have a right to be free.

Thank you.

Senator HARKIN. Mr. Chairman, I just had a question about CASP, but I will submit that in writing.

Senator LEAHY. Gentlemen, thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

There will be some additional questions from various Senators which we will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Departments for response subsequent to the hearing:]

DEPARTMENT OF STATE

ADDITIONAL COMMITTEE QUESTIONS

MEETINGS WITH THE SOVIETS

SENATOR LEAHY: I understand you have just returned from Moscow. How were you received? Do the Soviets recognize the serious problem their military support for Nicaragua causes for the United States? Have they ended that support?

What about Cuba and Eastern Europe? Are the Soviets ready to stop the flow of arms from their allies into Central America? What pressure are they prepared to put on Nicaragua to democratize? What are the Soviets asking of us in return? What leverage do the Soviets have over the FMLN guerrillas in El Salvador?

MR. ARONSON: My June 20-21 talks in Moscow with Soviet Foreign Ministry officials responsible for Central America were part of the ongoing U.S.-Soviet dialogue on regional conflicts. The talks were businesslike and useful. During the talks, I sought specifically to convey the seriousness with which we view continuing Soviet-bloc military support for Nicaragua, as had been underscored in the Bipartisan Accord.

While we welcome Soviet statements that they have not sent lethal weapons to Nicaragua since the beginning of 1989, shipments to Nicaragua of Soviet military supplies, as well as arms from Cuba and other East Bloc countries, continue unabated. The Soviets earlier put forth a proposal to end their military supply relationship with Nicaragua if the U.S. terminates its military assistance programs with all other Central American countries. We have rejected this approach, pointing out the need of others to counter the unjustifiably large and growing military superiority enjoyed by Nicaragua and foreign-backed subversion, as well as the strictly defensive nature of our own military assistance relationships in the region.

As the bulk of weapons and spare parts required by Cuba, Nicaragua, and increasingly by the FMLN in El Salvador are of Soviet origin or design, we strongly believe that Moscow retains substantial leverage over their friends in the region.

HONDURAS

SENATOR LEAHY: I understand we are still withholding $70 million in FY 89 economic support funds from Honduras because of that government's failure to reform its economy. Other donors--the IMF, World Bank, the Japanese--have done the same.

Are AID and the State Department united on this issue, or is the State Department going to insist that the money be released?

MR. ARONSON: The Department of State and AID are united in our view that economic support funds should only be disbursed to Honduras in support of economic policy adjustments which that country's government must undertake.

ARENA AND U.S. POLICY

SENATOR LEAHY: What does ARENA's victory mean for our relations with the government of El Salvador? Knowing of ARENA's reputation for being linked to the death squads and the extreme right-wing, do you agree that U.S. policy has to be modified to reflect that? How has our policy changed so far? How will it change in the future?

MR. ARONSON: Our policy toward El Salvador has been to support the government's efforts to achieve progress toward mutually held goals: the improvement of the observance of human rights, the development and strengthening of the democratic process, and judicial reform. These goals are of course linked and mutually supportive. This was our policy under the Duarte administration and it continues to be our policy under the newly-installed Cristiani government.

President Cristiani understands that if we believe that his government is insufficiently committed to attaining these objectives, we would reconsider our own commitment of assistance and support to El Salvador. Cristiani, the military high command, and ARENA leaders have heard this message from the highest levels of the U.S. government. Despite an FMLN campaign of assassination and attacks against government officials and other public figures, the Cristiani government has continued to express its commitment to human rights. In the confrontation at the University of El Salvador in July, for example, the army behaved with restraint in the face of automatic weapons fire and a Molotov cocktail thrown at the soldiers from inside the University campus.

FMLN PEACE PROPOSAL

SENATOR LEAHY: What is the Administration's view of the FMLN peace proposals?

MR. ARONSON: The FMLN has issued various proposals since January. The Duarte government gave full and careful consideration to the earliest proposals, agreeing to meet with guerrilla representatives to discuss the possibility of negotiations. One formal meeting between GOES representatives and the FMLN took place. Unfortunately, the FMLN would not take up the government's offer of a ceasefire or discussions on humanizing the war by ending assassinations of civilians and indiscriminate bombings.

President Cristiani in his inauguration address offered to meet with the FMLN. He sent a government delegation to meet with the FMLN in Mexico City in September and they reached an agreement to meet on a permanent basis, in the hope of peacefully ending hostilities. The next round of talks is scheduled for October 16-17 in Costa Rica. We fully support Cristiani in these efforts, as we had his predecessor.

EL SALVADOR

SENATOR LEAHY: One of the goals of our policy has been to promote economic growth in El Salvador. In fact, the growth rate of per capita GDP last year was negative .9 percent. That is worse than it was in 1985.

So despite more than $2 billion in U.S. economic aid in the past four years, the economy is doing worse today than it was then. Can any real improvement in the economy be expected until the war ends?

MR. ARONSON: From FY 81 through FY 88, economic assistance totaling $2.261 billion was obligated. We plan to obligate

$313 million in FY 89; our FY 90 economic assistance request amounts to over $287 million.

This very high level of assistance has come at a very difficult time in that country's history. During the decade of the 80's, civil war, economic depression, and a major earthquake have battered the economic and social fabric of El Salvador. The economy has, in the last two years, made modest gains after the sharp decline in the early part of the decade, but has not yet recovered to its high point of 1978.

The insurgency has cost the country in excess of $1.5 billion in damage to economic infrastructure, loss of investments, and damage to major export crops. The war has caused more than 60,000 deaths, displaced more than 500,000 people (approximately 130,000 remain displaced) within El Salvador and precipitated the flight of another 800,000 individuals to countries overseas--principally the U.S. and Canada.

To date, the USG's balance of payments program has helped brake the economic slide, and it has also helped to establish a partial basis from which to launch an economic recovery. Without a comprehensive restructuring of the economy, however, our assistance will continue to be a palliative that will be increasingly less effective to deal with the country's serious and worsening economic condition.

To address these problems, the government of El Salvador must undertake a comprehensive reform program that will bring about sustained economic growth accompanied by an equitable spreading of the benefits of this growth. In short, the reform program must create the conditions which afford the Salvadoran citizenry an enhanced economic and political stake in their own society, thereby eliminating the root causes of the insurgency.

ARENA

SENATOR LEAHY: When Vice President Quayle visited El Salvador in February, he said the continuance of U.S. aid depended on improvements in human rights by the government. The ARENA party, long associated with the death squads, now controls the presidency, the legislature and the judiciary. President Cristiani has reportedly said the United States suffers from a "human rights psychosis."

What specific steps is the Administration willing to take to ensure that ARENA does not encourage intensified political violence and human rights abuses by the forces under its control? How far are you willing to go with Cristiani, D'Aubuisson, the military leadership and business leaders to make them understand there cannot be a return to the pre-1985 conditions?

MR. ARONSON: The Administration has gone on record as stating that we are prepared to reconsider assistance to El Salvador if the Salvadoran government does not continue to show progress in the crucial areas of human rights, judicial reform and democratic development. El Salvador has evolved from a repressive, violence-torn society ruled by military dictatorship to one in which citizens of all democratic schools of thought are able to participate openly in the political process and to vote for the government of their choice. Politically-motivated violence has declined dramatically from the horrifying levels of the early 1980's. These hard won achievements were possible to a great extent because the U.S. government was willing to support the Salvadorans in their struggle for peaceful change. There is still a long way to go. President Cristiani would be the first to acknowledge this.

President Bush, Vice President Quayle, and other members of the Administration have stressed to President Cristiani that continued U.S. support depends on continued efforts by his government to further reduce politically-motivated violence and ensure greater protection of the civil and human rights of all Salvadorans. We are confident President Cristiani understands our position and is prepared to work with us.

ARCHBISHOP ROMERO

SENATOR LEAHY: Archbishop Romero was murdered nine years ago. The ARENA-dominated Legislative Assembly fired the Attorney General, many believe because he was about to prosecute the case.

Isn't this really the "test case" for Salvadoran justice? What evidence do you have that Roberto D'Aubuisson was involved in Romero's murder? If the government won't even prosecute that case, what reason is there to believe it will do anything about the hundreds of other political murders of lesser known victims? Do you have any information that Archbishop Romero's killer will be brought to justice?

MR. ARONSON: Antonio Amado Garay, the driver of the vehicle used in the assassination, testified before a Salvadoran court in November 1987 that Roberto D'Aubuisson had planned and ordered the murder of Archbishop Romero. Based on that testimony, the Salvadoran government requested that Garay's former employer, Alvaro Saravia, also implicated by Garay in the murder, be extradited from the United States. In a move we considered politically-motivated, the Salvadoran Supreme Court in December 1988 withdrew its extradition request. In frustration then-President Duarte made public the Salvadoran government's evidence in the case and charged D'Aubuisson-associate Hector Regalado as the assassin. A writ of habeas corpus was filed on Regalado's behalf, and the case has been returned to the Supreme Court.

I share your frustration with the failure of the Salvadoran government to successfully prosecute this case. We were outraged with the Supreme Court's withdrawal of the extradition request and have made our concern clear to all GOES officials pertinent to this case, including the Chief Justice. We have also told President Cristiani that we will regard the performance of his Supreme Court as a clear indicator of his commitment to the prosecution of human rights cases and to judicial reform.

HUMAN RIGHTS

SENATOR LEAHY: I am told that according to the non-governmental human rights commission of El Salvador, there were 1,125 political killings of civilians during the first five months of this year. What is the non-governmental human rights commission and how does this information compare to yours? What are the sources of your information on politically-motivated killings?

MR. ARONSON: The non-governmental Human Rights Commission of El Salvador (CDHES) describes itself as an independent human rights organization. However, information from FMLN defectors and captured guerrilla documents indicate that CDHES is one of several front groups controlled by the FMLN. CDHES reports only on alleged human rights abuses by the military, often distorting the facts; it does not address human rights violations committed by the guerrillas.

Embassy statistics of politically-motivated violence are drawn from public sources, such as newspaper accounts, FMLN declarations, etc. The Embassy's methodology, while imprecise, has been consistent since 1980, when the Embassy first started keeping statistics. For the first four months of 1989, the Embassy reports 30 civilians killed for political reasons, 73 civilians killed for possibly political reasons, and 49 civilians killed in action.

SENATOR LEAHY: What has happened to the case of the San Francisco massacre where 10 peasants were killed in September 1988? Three soldiers were eventually arrested. Have they been prosecuted?

MR. ARONSON: Two officers and seven enlisted men remain under detention awaiting trial. One of the officers filed a writ of habeas corpus in March before the Supreme Court. Further progress in the case was suspended pending the Court's decision on the writ. In June the Court dismissed it. The second officer and the other soldiers then filed writs of habeas corpus as well. The Supreme Court has yet to make a decision on these petitions.

The Administration has left no doubt of our interest in this case and our belief that those guilty must be prosecuted and punished.

SENATOR LEAHY: How do you explain that not one Salvadoran military officer has been convicted of a human rights violation in the history of this conflict? Do you have any confidence in the information supplied by the government concerning reports of human rights violations by the military?

MR. ARONSON: I would agree with you that some Salvadoran officers still believe they are above the law and that the military continues to commit some human rights abuses. However, there has been progress in the military's record and there exists a genuine commitment to further improvement. The Salvadoran Armed Forces of 1989 is a different institution from what it was nine years ago. For example, in the San Sebastian case it was a military honor board that determined there was sufficient evidence to warrant dismissing the officers and soldiers from service and turning them over to the civilian judiciary for prosecution. In another case, an army lieutenant was convicted earlier this year by a civilian jury of the murders of three men, the first conviction of a military officer for a major crime.

The military leadership has been relatively forthcoming with the Embassy in discussing its progress in its internal investigations, as in the San Sebastian case. The security forces routinely provide the Embassy with the status of cases: i.e., the names of individuals arrested, location where arrestees are held, disposition of cases (whether released or consigned to the courts), etc.

REPORT TO CONGRESS

SENATOR LEAHY: The Administration's six-month report on peace negotiations and human rights in El Salvador was due on April 1. It's now getting close to July. When can we expect to get that report?

MR. ARONSON: The report was sent to Congress on July 15.

EMBASSY HUMAN RIGHTS INQUIRIES

SENATOR LEAHY: I regularly get calls from constituents about reports of university students and members of human rights, labor and religious groups who have been arrested by the Salvadoran security forces. Often there are reports that these people have been beaten and in some cases raped while in custody.

Who in our Embassy investigates these complaints and where do they get information from besides the police or sources linked to the government? Do they go to the jails to interview these people? Do they interview them after they are released? Do they speak to the human rights office of the Roman Catholic Church (Tutela Legal)? What does the Embassy consider its responsibility to be in allegations of human rights abuses?

MR. ARONSON: Over the years the Embassy has received, and continues to receive, hundreds of inquiries about alleged detentions, arrests, disappearances, torture, and murders. The Embassy attempts to verify the facts of each case about which it learns. There is a Human Rights Officer in the Embassy political section who devotes all of his time to human rights issues. His duties include liaison with Salvadoran government officials and Salvadoran human rights organizations (including Tutela Legal), reporting on human rights issues, gathering statistics on human rights abuses, and making inquiries on reported cases of abuses.

In inquiring about human rights cases, the officer contacts the governmental Human Rights Commission which has access to persons under arrest or imprisoned and which also receives complaints of disappearances and other abuses. The Embassy is also in regular contact with non-governmental human rights organizations, including Tutela Legal. In other cases Embassy officials, including military personnel, contact the Salvadoran military directly for information.

Embassy officers do visit persons under detention, especially if there are charges of abuse, although it is not a regular practice. There are other human rights and humanitarian organizations which regularly visit prisoners, such as the International Committee of the Red Cross and the governmental Human Rights Commission. In other cases Embassy officers follow up on allegations of abuse after the detainees have been released.

GUATEMALA-MILITARY AID

SENATOR LEAHY: You have asked for $9 million in nonlethal military aid in addition to commercial sales of weapons.

In view of the sensitivity of any sales of lethal military equipment, even that approved by the State Department for sale through commercial channels, is the Administration prepared to inform the Congress in advance of any proposed commercial sale of lethal equipment?

MR. ARONSON: We are well aware and understand the sensitivity of arms sales to Guatemala. However we do not share the view that prohibiting sales of arms will bring about the desired effect of reducing the level of violence in the country. Rather it encourages Guatemala to seek other sources of equipment and ultimately reduces the leverage we might have to encourage the deepening and broadening of democracy.

A prohibition on lethal sales to Guatemala would indicate that we do not see the situation in Guatemala as having changed since a civilian government was elected in 1985. This is not the case: there is broad partipation in democratic institutions, press freedom, increased labor union activity, decreased reports of human rights abuses and an opening of the economy to sectors heretofore excluded. The two coup attempts of May 11, 1988 and May 9, 1989 fomented and carried out by disgruntled elements of the army were roundly denounced by senior military officers and major political and economic groups. These developments should be encouraged.

The Administration favors close consultations with Congress on lethal weapons sales. When Congress has requested information on these transactions and data on munitions license requests we have provided it.

GUATEMALA

SENATOR LEAHY: I have heard that more than 600,000 Guatemalans are still members of unpaid "civil defense patrols." Is that true?

MR ARONSON: A distinction must be made in Guatemala between the CVDC, or voluntary civil defense committees and the civil defense patrols. Approximately 600,000 civilians participate in CVDC's, down from a peak of 900,000 in the early 1980's. These committees are established at the village level, are led by a local leader chosen from the community and are designed to help control and combat the guerrilla presence and to coordinate and execute development activities. The CVDC in turn establishes, if necessary, a civil defense patrol or PAC. Not every community with a CVDC has a PAC. In fact many parts of the country which are guerrilla-free do not have them. About 70,000-90,000 people participate in PACs. In general, members volunteer a day of duty at regular intervals. They are unpaid. The PAC's help the army by informing it of guerrilla movements and efforts by guerrillas to acquire recruits and supplies. They also assist local authorities in maintaining law and order in a role similar to neighborhood watch committees in the U.S.

SENATOR LEAHY: I know the patrols are said to be voluntary, but I have received reports of harrassment, intimidation, and even killings of individuals who have organized resistance to participation in the patrols. Are you aware of these reports?

MR. ARONSON: I am aware of reports of coercion to enlist in the civil patrols. However, the government's stated policy is unequivocal that these are purely voluntary. There is no doubt that in villages where all able bodied males are members of a PAC, there is a great deal of peer pressure to participate. Intimidation, no doubt, forces participation, whether it be from local leaders or peers as does fear that non-participation could be interpreted as support for the guerrillas.

A domestic and largely indigenous group, the Community of Ethnic Communities -- Everyone Equal (CERJ), is the main domestic critic of the PAC system. It claims that service in the PAC is often not voluntary. It registers complaints and alleged abuses by both PAC's and the military and presents them to the GOG Human Rights Ombudsman, the National Reconciliation Commission, the Courts and the office of President Cerezo.

It is likely that, as the GOG continues to be successful in containing the domestic insurgency, as economic development continues to expand to areas of the country heretofore excluded from the formal economy and as civilian institutions increase in strength, the role of the PAC's is likely to be reduced in the future.

NICARAGUA

SENATOR LEAHY: Vice President Quayle recently visited the Contras in Honduras. According to the Washington Post, he has already dismissed the February 1990 election as a "sham" and he told the Contras that the United States "will always have a moral obligation to help them."

Has the Administration decided to attack the legitimacy of the Nicaraguan elections even before they take place? Is the Administration encouraging opposition parties and groups to participate in the elections?

MR. ARONSON: The Administration wants to see free, fair and honest elections in Nicaragua as the Sandinistas promised at Tesoro Beach and in the Esquipulas Agreement. We want a genuine democratic opening in Nicaragua, as there has been in other countries of the hemisphere. There is no hidden agenda.

During the Vice President's trip to Central America, Costa Rican President Oscar Arias stated that "under existing legislation, elections are not possible with the degree of liberty, plurality, and equality of opportunity that we all want" for Nicaragua.

The National Opposition Union has stated it will participate in elections under free, honest and efficient conditions. We support them in that goal. A fundamental imbalance exists between the Sandinista Front -- FSLN -- and the opposition -- UNO. The FSLN is a party merged with the state. It has politicized and controls the army, police, neighborhood defense committees, state trade unions an many other institutions. To ensure the elections are legitimate, it is important that the Government of Nicaragua continue to be held to high standards by the democratic community, including the U.S. Executive and Congress.

CONTRAS

SENATOR LEAHY: What happens to the Contras after the Nicaraguan elections next February? Are you encouraging the Contras to return home? Is there an amnesty that applies to the Contras? Do you have any reliable evidence that returning Contras have been retaliated against by the Sandinistas? What about by other Contras?

MR. ARONSON: We will encourage the Resistance to cooperate with the provisions of the Tela Summit agreement as we will hold the Sandinistas to their commitments. The Sandinista government has offered amnesty to Resistance members. We do not know how many Contras have accepted amnesty and returned to Nicaragua, but we suspect the number is small. We have several reports that Contras who have returned to Nicaragua and accepted amnesty have suffered for it. The most famous is the case of "Comandante Moises" who was killed by the Sandinistas after accepting amnesty. An Americas Watch report in April of this year cited numerous Sandinista human rights violations and concluded that GON forces were engaged in a pattern of violent abuses. The Nicaraguan Association for Human Rights is compiling a list of Sandinista human rights violations that may contain further examples.

SENATOR LEAHY: Some Contra military commanders have said they plan to fight to the death. Do you have an estimate of how many Contras, approximately, are prepared to continue fighting even without US military aid?

MR. ARONSON: The Resistance Politico-Military Commission visited the presidents of Central America and called upon the U.N. and the O.A.S. in late July to note their view that they could be forced to return to the field if their legitimate political and security rights are not protected in any demobilization plan.

SENATOR LEAHY: Since the Congress passed the Bipartisan Accord on Contra aid on April 13, I have received several detailed reports of Contra attacks against civilians in Nicaragua. I have written to Secretary Baker about them, because if true they violate the terms of the Accord.

I assume you also know of these reports. What are you doing to verify if they are true? Has someone from our Embassy in Managua gone to interview the witness? Have they interviewed the individuals who wrote the reports? Have they spoken to the International Red Cross to see if they know about them.

MR. ARONSON: We have addressed this question in our letter to you of August 2, 1989 which follows:

"Dear Senator Leahy:

Thank you for your letter of June 16 in which you enclosed a list of attacks purportedly carried out by Nicaraguan Resistance forces in Nicaragua. As the

Administration and Congress agreed in the bipartisan accord, it is the policy of the United States to encourage both the Government of Nicaragua and the Nicaraguan Resistance to continue the cessation of hostilities presently in effect. Further, it is our policy that no humanitarian assistance funds will be used to support any individuals engaged in offensive military operations.

We do not have a strong capability to assess responsibility for the initiation of the reported clashes which mar the informal truce in effect between the Nicaraguan Resistance and the government forces. But, given that the Resistance has been cut off from military aid and is very low on ammunition, we do not believe they have been in an offensive mode for many months.

Recently, the House Permanent Select Committee on Intelligence sent for comment a list of purported offensive actions by the Nicaraguan Resistance to two U.S. intelligence agencies. The list had originated with the Government of Nicaragua. One agency closely analyzed the Government of Nicaragua list; their assessment was that the Sandinista document was not intended as an accurate account of events in Nicaragua, but rather was to be used as propaganda. The agency could verify only a small number of the incidents cited by the GON as actually having taken place, and noted that the Sandinistas were conducting an aggressive counterinsurgency campaign. The other agency noted that its capability to analyze Resistance-related events inside Nicaragua had degraded since the Resistance presence in Nicaragua had declined and communications equipment had deteriorated. Nonetheless, it agreed that the Sandinista claims appeared to be inflated. It pointed out that it believed Resistance operations were at a low level, and contrasted the low level of Resistance defensive operations with the high level of counterinsurgency operations by the Sandinista army in the continuing "silent offensive" against the Resistance and their sympathizers. These reports are available to you through the HPSCI.

We have made known to the Nicaraguan Resistance forces our policy against offensive operations. In one case we have terminated family support to a comandante whose unit initiated an offensive operation after the bipartisan accord. In another case, we may have prevented an offensive operation by calling to the attention of the Resistance command that we had information which indicated that a unit commander may have been preparing an attack. We will continue to monitor this situation as best we can and take appropriate action when possible.

In this context, however, we are concerned about Sandinista actions which are in violation of the Esquipulas Agreement and the subsequent Alajuela and El Tesoro Declarations. The Department has received an increasing number of worrisome reports of Sandinista abuses. In April, for instance, Americas Watch made public forty allegations of extrajudicial executions by the Sandinistas. We continue to call upon the Sandinistas to respect their commitment to democratization and national reconciliation in Nicaragua.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

The Honorable
Patrick Leahy,
United States Senate."

SENATOR LEAHY: Many of the Contras are teenagers. Some were kidnapped and are now reportedly afraid to return to Nicaragua. Allegedly, they have been told that if they return they will be imprisoned, drafted into the army, or killed. They have not had contact with their families since they left.

Would you support efforts to arrange for these Contras to meet their families at a point inside Honduras near Yamales for the purpose of determining if they want to return home?

MR. ARONSON: There is a great deal of suspicion on the part of Resistance members about what would happen to them if they returned to Nicaragua. It will be recalled that even the majority of Sandinista soldiers released by the Resistance in December of 1988 chose not to return to Nicaragua.

We would support any effort to facilitate the return to Nicaragua of people who were with the Resistance and wanted to leave. The policy of the Resistance is allow anyone who wants to leave the Resistance to leave, and there is a program in place in which such people are put in contact with the U.N. High Commission for Refugees which arranges their repatriation. An additional program is being instituted in which the International Red Cross would be the point of contact.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

MILITARY LIST

SENATOR HARKIN: Mr. Aronson, please provide the Senate Foreign Operations Subcommittee the names of those Salvadoran civilians and security/military personnel included on the "Bush list" -- that is, the list given to then-President Magana by Vice President Bush in December 1983. Of those individuals on the list who are still alive, please provide details on the whereabouts of those individuals. For those individuals who have recently returned to El Salvador, please detail their current activities, whether they are still commissioned in the Salvadoran Armed Forces and/or security forces. Please provide in detail efforts by the United States Embassy to monitor the activities of those individuals on the original Bush list who are now in El Salvador.

Has the United States Embassy expressed its concern with either the Salvadoran Government or the Salvadoran Armed Forces about the return of those individuals included on the Bush list who have returned to El Salvador?

MR. ARONSON: The list was provided in 1983 as part of U.S. policy in the context of our policy of assisting the Salvadoran government in reducing the incidence of human rights abuses committed by the military and civilians and reinforcing a respect for the rule of law. I do not think it would serve any useful purpose to name the individuals on the list. The U.S. did not have nor claim to have irrefutable proof at the time that those individuals named had committed specific abuses. Rather, the previous Administration's belief was that these men had been accused of human rights violations over a sufficiently long period to justify taking steps to reduce the likelihood that they would continue to be in positions of authority and power.

I assure you that our Embassy continues to make clear to the Salvadoran government our concern that persons associated with extremism and violence not be allowed to occupy positions of influence and power in the government and military.

DEATH SQUAD ACTIVITY

SENATOR HARKIN: Please provide in detail the status of death-squad activity in El Salvador and the past and present links of members of the ARENA party to death squads. What information does the United States Embassy or any other agency of the U.S. Government have about links between Mr. Roberto D'Aubuisson and death squad activity in El Salvador?

MR. ARONSON: El Salvador continues to be plagued by politically-motivated violence from both extremes. However, as Embassy statistics indicate and as even El Salvador's harshest critics concede, politically-motivated murders have decreased considerably over the years. In 1980 the Embassy estimated that 750 people died each month for political reasons; for 1988, that figure was 19.

While there are claims that death squad activity has returned, we have seen no evidence that the notorious vigiliante squads of the early part of the decade are again operating. Various members of ARENA have been accused of involvement in death squad activity, including Roberto D'Aubuisson. Successful prosecution of such crimes is difficult in El Salvador, given the degree to which the judicial process is subject to intimidation and bribery. This is why our efforts at judicial reform in El Salvador are so crucial and worthy of continued support.

There has been a marked increase in FMLN death squad violence directed against unarmed civilian government officials, military officers and their families. President Cristiani shares our belief that the FMLN hopes to provoke an excessive response from the security forces to the FMLN campaign of assassinations, car bombings, and other acts of terror. The government's response has been measured and respectful of the civil and human rights of Salvadoran citizens. We have encouraged the government to continue in this vein and thereby frustrate the FMLN's designs.

D'AUBUISSON VISA

SENATOR HARKIN: What is the status of Mr. D'Aubuisson's entrance visa to the United States?

MR. ARONSON: Roberto D'Aubuisson is ineligible for a visa under the Immigration and Nationality Act because of his personal advocacy of violence. He is free to apply for a waiver of that ineligibility, and such a request is considered on a case by case basis. Each application is decided on the basis of U.S. national security considerations, purpose of travel, etc.

GOVERNMENT OFFICIALS

SENATOR HARKIN: Please provide a list of the current members of the cabinet of the Government of El Salvador as well as a list of the recently appointed members of the Salvadoran Supreme Court.

MR. ARONSON: The members of President Alfredo Cristiani's cabinet are as follows:

Presidency: Col. (Ret.) Juan Martinez Varela
Foreign Affairs: Jose Manuel Pacas Castro
Justice: Oscar Alfredo Santamaria
Defense: Gen. Rafael Humbert Larios
Public Health: Dr. Gilberto Lisandro Vasquez Sosa
Public Works: Jose Mauricio Stubig
Economy: Jose Arturo Zablah Kuri
Education: Rehe Eduardo Hernandez Valiente
Agriculture: Antonio Cabrales
Treasury: Rafael Eduardo Alvarado Cano
Press Spokesman: Mauricio Eduardo Sandoval Aviles
Private Presidential Secretary: Dr. Jose Francisco Guerrero
Interior: Jose Francisco Merino Lopez (also Vice President)
Planning: Mirna Lievano
Urban Development: Roberto Paredes
Labor and Social Welfare: Mauricio Gonzalez Dubon

The members of the Supreme Court are as follows:

Constitutional Chamber:
President Gabriel Mauricio Gutierrez Castro
Jorge Antonio Giammatti Aviles
Marcos Gabriel Villacorta
Jose Enrique Silva
Jose Antonio Duenas

Other Chambers:
Fabio Hercules Pineda
Ricardo Avila Moreira
Francisco Arrieta Gallegos
Atilio Ramirez Amaya
Humberto Guillermo Cuestas
Roberto Romero Carrillo
Oscar Rodriguez Diaz
Francis Cardona
Mario Adalberto Rivera Lazo

ARCHBISHOP ROMERO

SENATOR HARKIN: What is the status of the case of the 1980 assassination of Archbishop Oscar Romero? What is the status of efforts to extradite Mr. Saravia and any other key witnesses in the Romero case? Please provide information from the United States Embassy and any other agency of the U.S. Government on the alleged involvement of Mr. Roberto D'Aubuisson on the 1980 assassination of Archbishop Romero. What efforts are now being undertaken by the Special Investigative Unit and any other branch of the Salvadoran Government now receiving U.S. AID Administration of Justice Funds regarding the investigation of those responsible for the murder of Archbishop Romero? Has the U.S. Ambassador to El Salvador or any other member of our Embassy discussed the status of the Romero case or encouraged further action in this case with President Alfredo Cristiani?

MR. ARONSON: The Special Investigative Unit was assigned the Archbishop Romero case in 1985 and in 1987 located Antonio Amado Garay, the driver of the assassin's vehicle. Garay, who at the time of the murder was employed as a driver by Capt. Alvaro Saravia, testified before a Salvadoran court in November 1987 that Saravia had instructed him to drive the assassin to the hospice where the Archbishop was saying mass. After the shooting, Garay claims that he drove Saravia to a meeting with Roberto D'Aubuisson to whom Saravia reported that the assassination had been carried out. On the basis of Garay's testimony the Salvadoran government issued an arrest warrant and an extradition request for Saravia, by that time living illegally in the United States.

Saravia was arrested in Miami and the U.S. Magistrate signed a Certification of Extraditability for him. However, in December 1988 the Salvadoran Supreme Court overturned the arrest warrant and the Salvadoran government consequently withdrew the extradition request. Our Ambassador to El Salvador conveyed to the Salvadoran government our extreme dismay and outrage over the Court's action, which we believed to have been politically-motivated.

Saravia was released from prison. He was then arrested on charges relating to his immigration status. Both he and his wife have filed applications for political asylum and are free on bond in Miami. Their immigration hearing is now scheduled for December.

After the Supreme Court overturned Saravia's arrest warrant, then-President Duarte made public the evidence it had on the assassination, including the charge that Dr. Hector Regalado was the assassin. A writ of *habeas corpus* was filed on Regalado's behalf and the case has been returned to the Supreme Court. The SIU is continuing its investigation.

Our Embassy is in regular contact with the SIU, the Attorney General's office, and members of the Supreme Court regarding the prosecution of human rights cases, especially the Romero assassination.

MAP FUEL TRANSFER

SENATOR HARKIN: The General Accounting Office uncovered the fact that the Salvadoran Air Force resold more than $800,000 of U.S. - MAP purchased fuel to the Contra resupply operation, the U.S. Government, and Southern Air Transport. Mr. Michael Kozak, then Acting Assistant Secretary of State for Inter-American Affairs, testified before the Senate Foreign Operations Subcommittee on June 8 that the Salvadoran Armed Forces had offered to pay back that $800,000 to the U.S. Government.

During public testimony before this Subcommittee on June 23, Mr. Aronson, you stated regarding the Salvadoran Armed Forces' offer: "If they will send us a check and we can accept it...I'll sign my name."

Mr. Aronson, what formal efforts have been made by the U.S. Government, the Department of State, and/or the U.S. Embassy to recover that $800,000 from the Salvadoran Armed Forces? What is the status of efforts by our government or by our Embassy in San Salvador to recover those funds?

MR. ARONSON: I would first like to clarify the dollar value of the MAP provided fuel that was improperly sold to the Resistance. The Salvadoran Air Force sold approximately $120,000 worth of fuel to the Resistance and other non-U.S. government third parties. The balance of the $800,000 is what the U.S. government paid to the Salvadoran Air Force for fuel we purchased for official U.S. flights. As the GAO study stated, these sales are not considered third party transfers and, because the Salvadorans receive title to the fuel, they are entitled to the proceeds of the sale of that fuel to the U.S. government. There is no violation involved in these sales. The question of accountability for these payments is another, separate issue which we are now pursuing.

The Salvadoran government offered to reimburse the U.S. government for any fuel improperly sold. The offer was made in a spirit of cooperation and was an effort to rectify an error committed unintentionally and without a deliberate attempt to circumvent the terms of our agreement. The Embassy has worked out an arrangement with the Salvadoran Air Force under which the Air Force will provide approximately $120,000 worth of fuel free of charge for U.S. Military Group helicopter flights. This repayment arrangement has already been implemented.

SENATOR HARKIN: In response to the conclusions of the Kissinger Commission, the Congress established a student exchange program with Central America called the Central American Scholarship Program, or CASP. That program, administered by the U.S. Agency for International Development and operated by Georgetown University, now sends to U.S. community colleges hundreds of young people from every Central American country, with the exception of Panama and Nicaragua. Mr. Aronson, what is your position on that program recruiting and sending to U.S. community colleges young people from Nicaragua?

MR. ARONSON: As you know Senator, current legislative restrictions prohibit U.S. economic assistance to Nicaragua including for the purposes of training. Under Section 620(Q) of the Foreign Assistance Act of 1961, as amended, as well as the Brooke Alexander Amendment in appropriations legislation, A.I.D. may not provide official developmental assistance to either the Government of Nicaragua or to private entities or individuals in that country. These prohibitions apply to any country in default on repayment of loans made by the United States Government and to all citizens of that country no matter where they reside.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

PRESSURE ON FMLN FOR PEACE

SENATOR KASTEN: A number of my colleagues believe we should bring pressure on the Salvadorans to negotiate some kind of settlement to end the fighting. That certainly is a laudatory goal, but we also need to bring pressure on the other side.

Do you have any suggestions as to how we can persuade the FMLN to negotiate a cease fire and an integration of their forces and political leaders into the democratic system?

MR. ARONSON: International pressure can and should be brought to bear on those countries which supply the FMLN with arms. Cuba and Nicaragua continue to provide the arms and ammunition which enable the guerrillas to wage a war which claims an ever-higher toll of unarmed civilian victims. In addition, those countries sympathetic to the FMLN should make every effort to persuade the FMLN to act in good faith in the on-going round of discussions with the Salvadoran government. Moreover, a strong signal by Congress that it will sustain military assistance to the Salvadoran government will also help convince the FMLN to negotiate a peaceful settlement to the war.

HUMAN RIGHTS VIOLATIONS OF FMLN

SENATOR KASTEN: All of us are concerned about allegations of human rights violations by the Salvadoran military. We have applauded the administration's efforts, which have included visits to the region by the Vice President, to emphasize our concern.

What about human rights violations committed by the FMLN? Have you noticed any increase or decrease in such violations committed by the guerrillas?

MR. ARONSON: FMLN human rights abuses have escalated dramatically over the last nine months. Increasingly unable to confront the army in the field, the FMLN has resorted to assassinations, urban terrorism, and the destruction of the economic infrastructure. The FMLN thus hopes to provoke a violent, extrajudicial response from the Salvadoran right and military which it believes would jeopardize continued U.S. assistance.

The guerrillas have particularly targetted elected officials and conservative public figures for assassination.

SALVADOR ELECTIONS - LOW TURNOUT

SENATOR KASTEN: Fifty-four percent of eligible voters cast ballots in the Salvadoran elections, a low figure by Salvadoran standards. Some, including the FMLN guerrillas, suggest that this low turnout proves that the process was not legitimate. The Freedom House reported that the turnout was due to the violent tactics of the FMLN, and that the extent and ferocity of the guerrillas' attack on the electoral process was the cause of the relatively low turnout.

Do you agree with the Freedom House conclusion on this issue?

MR. ARONSON: Most certainly the FMLN attempts to disrupt the election kept voters away. After supporting the candidacy of the Democratic Convergence's Guillermo Ungo, the FMLN at the last minute withdrew its backing and called on its supporters to boycott the balloting. The guerrillas also imposed a transportation stoppage, threatened electoral officials with assassination, and sabotaged the electricity and water supplies. In the face of such intimidation, the fact that so many Salvadorans did vote is testimony to the value they attach to their constitutional right to elect their leaders. Moreover, the turnout in El Salvador is comparable to the U.S. turnout in recent presidential elections.

DEMOCRATIC TURNOVERS

SENATOR KASTEN: It is my understanding that the election of Cristiani in El Salvador marked the first time in that nation's history when one democratically elected government transferred power to another. Is this in fact one of the very few such turnovers in the history of Central America?

MR. ARONSON: There have been elected presidents holding and transferring office in El Salvador without force of arms or violence during the nineteenth and twentieth centuries. The last transfer of the presidential office from one party to another was some fifty years ago.

ELECTIONS

SENATOR KASTEN: Is it not true that democratic leadership in Latin America also declared the elections held in El Salvador to be free and open elections?

MR. ARONSON: In keeping with past practice, El Salvador invited observers from over twenty countries to witness the presidential elections in March, including Latin America. In addition, scores of unofficial observers and international journalists were also on the scene. There was almost universal agreement that the balloting was fair and free. Guatemalan President Vinicio Cerezo, for example, called the Salvadoran election results a victory for democracy and a rejection of violence.

ANTI-PERSONNEL MINES

SENATOR KASTEN: In years past, the FMLN has utilized small plastic land mines which have as their purpose the maiming of individuals. This has resulted in a significant number of people -- many of whom are innocent women and children -- losing limbs as a result.

Do we still see utilization of these types of anti-personnel mines by the FMLN?

MR. ARONSON: The FMLN continues to plant land mines on rural paths and fields. Six people have been killed so far this year by these mines.

LEVEL OF MILITARY ASSISTANCE

SENATOR KASTEN: Notwithstanding the criticism of some over the level of military assistance we provide to El Salvador, hasn't that assistance in real terms actually decreased substantially from fiscal year 1985?

MR. ARONSON: U.S. military assistance to El Salvador has declined from the 1985-high of 136.3 million dollars to the FY 1988 level of 86.4 million dollars. During 1985-1989 the Salvadoran military has transformed itself into a capable fighting force which has taken the offensive in rural areas. However, the decrease in assistance during that period has made it increasingly difficult for the Salvadoran military to replace equipment lost in combat or through attrition. At the same time Cuba and Nicaragua have stepped up shipments of arms and ammunition to the FMLN.

HUMAN RIGHTS VIOLATIONS - GUATEMALA

SENATOR KASTEN: How would you compare the level of human rights violations in Guatemala today to that of the early 1980's?

MR. ARONSON: Though Guatemala continues to be a country plagued by violence, and abuses of human rights continue, there are major differences in the human rights situation today compared to the early 1980's.

In the early 1980's Guatemala was governed successively by Generals Lucas Garcia (1978-82) and Rios Montt (March 1983 - August 1983). Under the first serious human rights abuses were committed and US assistance was suspended. Following the accession of General Rios Montt to power through a military coup there was some limited improvement in the situation and assistance was also withheld. It is estimated that in the period 1980-1982 the number of persons killed for political reasons was approximately 7,360. Disappearances for the period 1981-1982 (1980 figures being unavailable) totalled 694.

Political and economic liberties during the early 1980's were restricted. For example under the Rios Montt regime a state of siege was declared. Political party and labor union activities were formally suspended and the press was prohibited from reporting on political party activities. Separate courts of special jurisdiction were established which ordered the arrest or detention of any person suspected of having committed crimes against the state or public order.

Guatemala today enjoys a freely and fairly elected democratic government after 20 years of military rule. Under the present civilian government of President Vinizio Cerezo, there is broad political participation, freedom of press and speech, and increased labor union activity. An independent judiciary has also been established. As a result, the level of violence, though still high, has declined sharply from the levels of the early 1980's. For the period 1986 - 1988 political killings totalled approximately 348 and disappearances 541.

President Cerezo has established two new offices responsible for human rights and the Guatemalan Congress has established one of its own. The three organizations are: The Office of the Human Rights Ombudsman, the Presidential Advisory Commission on Human Rights (COPADEH), and the Congressional Commission on Human Rights.

The Office of the Human Rights Ombudsman was created to investigate a wide range of human rights abuses, including disappearances and extrajudicial murders. The Ombudsman has a broad mandate to investigate violations of human rights, but has little enforcement power. It has opened offices in 5 of Guatemala's 22 departments and has processed 700 of the 850 cases put before it through August 1988. When an investigation by the Ombudsman uncovers evidence that a violation may have occurred, the case is turned over to the appropriate judicial authorities.

The Presidential Advisory Commission was established in response to demands by the Mutual Support Group (GAM) that there be a special commission to investigate past and present disappearances. The Commission makes recommendations to the President but does not have the power to conduct investigations.

The Congressional Commission on Human Rights hears complaints from citizens regarding alleged human rights violations, makes inquiries and can conduct investigations. It also hears reports from the Ombudsman, other government entities and NGO's and makes recommendations to Congress regarding legislation on human rights.

It is ultimately with the judiciary that the prosecution of human rights abusers lies. The judiciary in Guatemala continues to be weak. We have been assisting the GOG to improve its judicial administration since 1986, to strengthen the democratic infrastructure, and to help guarantee political and civil rights. Yet this institution building is a complex process and progress has been slow. Important human rights problems remain in Guatemala involving the use of force and abuses by political extremists and some individual former members of security forces.

We remain concerned about political violence and have voiced that concern to the government. While resorting to violence is still all too common, the fundamental difference is that the present government, rather than contributing to violence, is seeking to end it.

EL SALVADOR AND HUMAN RIGHTS

SENATOR KASTEN: Has the new president of El Salvador committed himself to fighting human rights violations by his own forces?

MR. ARONSON: President Cristiani has pledged to continue the improvement in the military's observance of human rights first begun under the Duarte government. Cristiani realizes that continued U.S. support depends, to a great degree, on the military's performance in this key area.

There are already some promising indications of Cristiani's and the military's commitment. The military is forming an internal human rights commission to be staffed by civilians which will look into allegations of abuses by members of the armed forces. In another recent development, the Chief of Staff has ordered an investigation into the deaths of two men while under detention by the army.

NICARAGUA

SENATOR KASTEN: What is your bureau's current assessment of the willingness of the Sandinistas to allow a free and fair election next February?

MR. ARONSON: The Sandinistas promised at Tesoro Beach to hold free, fair and honest elections under international observation. However, changes to Nicaragua's electoral laws were announced and a Supreme Electoral Council appointed without good faith talks with the opposition. The FSLN, a party merged with the state, has politicized and controls the state institutions. Attacks on the U.S. Embassy and independent organizations such as the National Endowment for Democracy (NED) and Freedom House seem to be meant to discourage international observation.

We hope that upcoming talks between President Ortega and the Nicaraguan opposition will produce conditions for free and fair elections in February 1990.

SENATOR KASTEN: In the supplemental currently pending in Congress there is $1.5 million meant to provide assistance to the democratic opposition of Nicaragua.

Do we have any indication yet as to whether the Sandinistas will continue to frustrate our ability to help the opposition with such assistance?

MR. ARONSON: Nicaraguan laws make it illegal for their citizens to receive assistance from organizations directly or indirectly funded by certain 1988 appropriations of the U.S. Congress. In addition, half of all foreign contributions to Nicaraguan political parties must go into a special fund controlled by the Supreme Electoral Council. Meanwhile, the Sandinistas' budget is paid out of the national treasury. A relaxation of restrictions on assistance to the opposition would help create a level playing field for all Nicaraguan political parties.

PANAMA

SENATOR KASTEN: Mr. Secretary, what is the current status of the OAS Mission to Panama and have they made any progress on fulfilling their mandate?

MR. ARONSON: The OAS Mission to Panama was created by the Ministers of Foreign Affairs on May 17 with a mandate to promote "conciliation formulas for arriving at a national accord that can bring about, through democratic mechanisms, a transfer of power in the shortest possible time and with full respect for the sovereign will of the Panamanian people".

Following its first report, on June 6 the Mission's mandate was extended with the request to provide a further report on its activities on July 19. This was subsequently extended to August 23. The report of the OAS Commission made clear that Noriega must go if this crisis is to be solved and the reconstruction of Panama is to begin. As the report also makes clear, even his own supporters want him out. The OAS Commission returned to Panama in August to oversee a tripartite dialogue between the opposition, regime civilians, and the Panama Defense Forces. Regretfully, the Commission was unable to promote a democratic transition due to Noriega's intransigence, and on September 1, Noriega installed a new puppet regime, prompting world-wide condemnation and the withdrawal of many ambassadors from Panama or reduction in official contact with the regime.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

CONTRAS

SENATOR HATFIELD: Although the contra war does seem to be winding down, several organizations have approached me with information on attacks carried out in the last several weeks by the Nicaraguan contras. You may remember that I cast my vote in favor of the humanitarian assistance package to the contras in April -- for the first time in 7 years, and only after a great deal of agonizing thought. I did so with the understanding that the contras would not conduct any offensive military operations.

I have submitted a list of these alleged attacks and would be grateful if you could respond specifically to each of them for the record. Could you tell this Committee what the Administration has done to make its objections to any such operations clear?

MR. ARONSON: We have addressed this question in a letter to Senator Leahy dated August 2, 1989. The text follows:

"Dear Senator Leahy:

> Thank you for your letter of June 16 in which you enclosed a list of attacks purportedly carried out by Nicaraguan Resistance forces in Nicaragua. As the Administration and Congress agreed in the bipartisan accord, it is the policy of the United States to encourage both the Government of Nicaragua and the Nicaraguan Resistance to continue the cessation of hostilities presently in effect. Further, it is our policy that no humanitarian assistance funds will be used to support any individuals engaged in offensive military operations.
>
> We do not have a strong capability to assess responsibility for the initiation of the reported clashes which mar the informal truce in effect between the Nicaraguan Resistance and the government forces. But, given that the Resistance has been cut off from military aid and is very low on ammunition, we do not believe they have been in an offensive mode for many months.
>
> Recently, the House Permanent Select Committee on Intelligence sent for comment a list of purported offensive actions by the Nicaraguan Resistance to two U.S. intelligence agencies. The list had originated with the Government of Nicaragua. One agency closely analyzed the Government of Nicaragua list; their assessment was that the Sandinista document was not intended as an accurate account of events in Nicaragua, but rather was to be used as propaganda. The agency could verify only a small number of the incidents cited by the GON as actually having taken place, and noted that the Sandinistas were conducting an aggressive counterinsurgency campaign. The other agency noted that its capability to analyze Resistance-related events inside Nicaragua had degraded since the Resistance presence in Nicaragua had declined and communications equipment had deteriorated. Nonetheless, it agreed that the Sandinista claims appeared to be inflated. It pointed out that it believed Resistance operations were at a low level, and contrasted the low level of Resistance defensive operations with the high level of counterinsurgency operations by the Sandinista army in the continuing "silent offensive" against the Resistance and their

sympathizers. These reports are available to you through the HPSCI.

We have made known to the Nicaraguan Resistance forces our policy against offensive operations. In one case we have terminated family support to a comandante whose unit initiated an offensive operation after the bipartisan accord. In another case, we may have prevented an offensive operation by calling to the attention of the Resistance command that we had information which indicated that a unit commander may have been preparing an attack. We will continue to monitor this situation as best we can and take appropriate action when possible.

In this context, however, we are concerned about Sandinista actions which are in violation of the Esquipulas Agreement and the subsequent Alajuela and El Tesoro Declarations. The Department has received an increasing number of worrisome reports of Sandinista abuses. In April, for instance, Americas Watch made public forty allegations of extrajudicial executions by the Sandinistas. We continue to call upon the Sandinistas to respect their commitment to democratization and national reconciliation in Nicaragua.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

The Honorable
Patrick Leahy,
United States Senate."

GUATEMALA

SENATOR HATFIELD: A recent Amnesty International report on human rights in Guatemala recounts a number of very serious human rights violations, including murder, which evidence suggests that government forces may have committed. It also suggests that the government of President Cerezo has been slow to respond -- or completely unwilling to respond to evidence presented.

As one of the Congressional election observers of President Cerezo's election, I was heartened by the return of democracy to Guatemala. As I assume do you, however, I find these reports deeply troubling. Could you give this Committee a status report on uman rights in Guatemala?

MR. ARONSON: The human rights situation in Guatemala has improved since the return to a civilian elected government in 1986. However, important human rights problems remain, involving the use of force and abuses by political extremists and some individual former members of security forces. In Guatemala there is a legacy of violence, vigilante justice and crime with which the judiciary and democratic institutions have developed only a limited capacity to cope. While resorting to violence is still all too common, the fundamental difference is that the present government, rather than contributing to violence, is seeking to end it.

The government of President Cerezo has established two new offices responsible for human rights and the Guatemalan Congress has established one of its own. The three organizations are: the Office of the Human Rights Ombudsman, the Presidential Advisory Commission on Human Rights (COPADEH), and the Congressional Commission on Human Rights.

The Office of the Human Rights Ombudsman was created to investigate a wide range of human rights abuses, including disappearances and extrajudicial murders. The Ombudsman has a broad mandate to investigate violations of human rights, but has little enforcement power. It has opened offices in 5 of Guatemala's 22 departments and has processed 700 of the 850 cases put before it through August 1988. When an investigation by the Ombudsman turns up evidence that a violation may have occurred, the case is turned over to the appropriate judicial authorities.

The Presidential Advisory Commission was established in response to demands by the Mutual Support Group (GAM) that there be a special commission to investigate past and present disappearances. The Commission makes recommendations to the President but does not have the power to conduct investigations.

In addition, the Cerezo government also appointed a central office for investigations of disappearances. Judge Olegario Antonio Labbe Morales of the Guatemalan Ninth Court of First Instance was designated as the sole court for the investigation of writs of habeas corpus. By June 1987 Judge Morales had compiled a list of 108 persons from whom writs of habeas corpus had been filed. Of the 108 persons, all but thirteen reappeared safe and sound.

The Congressional Commission on Human Rights hears complaints from citizens regarding alleged human rights violations, makes inquiries and can conduct investigations. It also takes reports from the Ombudsman, other government entities and NGO's and makes recommendations to Congress regarding legislation on human rights.

It is ultimately with the judiciary that the prosecution of human rights abusers lies. The judiciary in Guatemala continues to be weak. We have been assisting the GOG to improve its judicial administration since 1986 in an effort to strengthen the democratic infrastructure and to help gurarantee political and civil rights.

NEGOTIATIONS

SENATOR HATFIELD: You have made the comment that the United States is "committed to a negotiated settlement" of the civil war in El Salvador. Could you give a detailed account of what the United States has done since the beginning of the year to encourage and facilitate negotiations between all parties to the conflict?

MR. ARONSON: Both during the Duarte administration and since President Cristiani has assumed office, we have publicly stated our support for a negotiated end to the war. Administration officials have repeatedly called on the FMLN to halt its attacks against unarmed civilians and government officials, thereby demonstrating the sincerity of FMLN interest in a peaceful resolution. We are fully supportive of the Salvadoran government's desire to achieve such a resolution within the context of regional peace efforts.

HUMAN RIGHTS CASE

SENATOR HATFIELD: Several weeks ago, the brother of a young Salvadoran who was taken into custody by uniformed security forces more than 2 years ago came to visit me. Despite the fact that this young man was abducted in front of witnesses, the Salvadoran government apparently denies that he was ever in its custody. Could you raise the case of Miguel Angel Rivas Hernandez, who apparently was taken into custody in Ilopango in the San Salvador Department on November 29, 1986? I look forward to a full report on the government's response.

MR. ARONSON: Our Embassy in San Salvador has been actively seeking information on Mr. Rivas' whereabouts since early 1987, when the Embassy was put in contact with Mr. Rivas' family. Embassy officers on several occasions made unannounced visits to security force installations where Mr. Rivas was rumored to be held, without locating him. Embassy officials have discussed the Rivas case on numerous occasions with military officials, making clear our interest in locating Mr. Rivas or at least obtaining some information about what may have happened to him. The security forces have denied repeatedly that they had detained or are currently holding Mr. Rivas. I regret that despite all the Embassy's efforts over a two year period, we have been unable to find Mr. Rivas or to establish that he was ever detained by the military.

QUESTIONS SUBMITTED BY SENATOR ALFONSE M. D'AMATO

PANAMA

SENATOR D'AMATO: Mr. Secretary, a proposal is circulating in the House that would authorize the Panama Canal Commission to use the interest on payments to Panama that are held in escrow to pay for certain extraordinary expenses incurred as a result of the actions of the Noriega regime in Panama. What is your opinion of such a proposal?

MR. ARONSON: We well understand the new and extraordinary expenses the PCC is now having to meet as a result of this crisis, but we believe the USG must resolve that problem in some manner other than taking money from escrowed Treaty payments which belong to the Republic of Panama.

The U.S. has a clear Treaty obligation to pay certain monies to the Republic of Panama. Since February 1988, we have placed those monies in escrow so as not to turn them over to the Noriega regime while still complying with our Treaty obligations. Those monies belong to the Republic of Panama and are in an account established in the name of the Republic of Panama. As in any other escrow arrangement, interest earned on that money belongs to the Republic of Panama.

The escrow arrangement is understood and supported by the people of Panama and internationally. If we were now to appropriate to ourselves either the principal or the interest, we would furnish a material example to support Noriega's charge of U.S. Treaty violations and U.S. intent to renege on its Treaty commitments. Such action would undermine the moral and political strength of the U.S. in this struggle against the Noriega regime, as well as international confidence in the safety of foreign deposits in U.S. banks.

SENATOR D'AMATO: The OAS Mission charged with negotiating a transfer of power in Panama has failed miserably. I think it is time that State got out of the bleachers and onto the playing field. Are we planning to recognize Mr. Endara as the legally elected President of Panama? If not, what is our next step in seeing that Manuel Noriega is removed from power?

MR. ARONSON: For the first time in many years, the region's governments are prepared to give the OAS a chance to resolve a major crisis.

The key foreign ministers showed their interest in a multilateral solution by coming to the meeting (the third in two months) and by adopting a report and a declaration that contains the broad elements of a viable settlement, including the September 1 deadline.

We demonstrated our commitment to using the OAS to resolve the crisis by staying with the process and joining the consensus.

After gaining the views of the Panamanian opposition, the President decided to support the OAS declaration on the basis that a democratic transfer of power by September 1 can only occur with Noriega's departure by that date and because of the commitment of Latin American governments to that task.

Since Noriega failed to negotiate in seriousness and instead cynically used the process to buy time, he now faces growing diplomatic isolation.

As regards President-elect Endara, we--and virtually every other observer--recognize that he and his colleagues won an overwhelming victory in the May 7 election despite General Noriega's blatant efforts to impose a victory for his own candidates through fraud. Interestingly, one of the reasons Noriega's attempt at fraud failed was that his own military forces joined the population at large in voting for the opposition coalition slate.

We have repeatedly stated that the U.S. will not recognize Noriega's puppet regime.

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADDITIONAL COMMITTEE QUESTIONS

COSTA RICA -- FY 90 ESF REQUEST

SENATOR LEAHY: Last year the United States provided $90 million in Economic Support Funds to Costa Rica. This year the Administration is proposing to cut that aid to $57 million.

Can you explain why we should cut aid to President Arias right at the time that he is playing a central role in the peace process in Central America? Doesn't that send the wrong message? Don't we want to be on record supporting President Arias?

MR. SCHIECK: The reduction in ESF for Costa Rica from an FY 1989 earmarked level of $90 million to a request level of $57 million in no way reflects an effort by the Administration to pressure President Arias on his Central America peace plan.

The proposed reduction in ESF for FY 1990 reflects recognition that the economic, financial and structural reforms begun by the Monge Administration and continued under President Arias have restored stability and growth to Costa Rica's economy.

Since 1983, Costa Rica's GDP growth has averaged 4.5% per year, the highest in the region, and unemployment has fallen to 5.6%, the lowest in the region and one of the lowest in Latin America. Costa Rican per capita income is also the highest in the region, by a substantial margin.

As we anticipated, Costa Rican exports of nontraditional products are growing dramatically -- with such exports to areas outside Central America increasing from $128 million in 1983 to $440 million in 1988. These increased export earnings provide an additional source of needed foreign exchange for Costa Rica's development.

The need for relatively high levels of assistance from the U.S. has diminished now that the multilateral agencies and other bilateral donors have substantially increased aid to Costa Rica. The World Bank recently approved a $100 million structural adjustment loan, to which the Government of Japan will add another $100 million in co-financing. The IMF has approved a $95 million Stand-by arrangement for Costa Rica, including up to $45 million for a debt buyback proposal that the Costa Ricans are attempting to negotiate with their commercial bank creditors to reduce that debt dramatically. In addition, the Paris Club recently agreed to a rescheduling of Costa Rica's official debt.

We would be opposed to additional cuts in other programs to provide more ESF for Costa Rica rather than use these scarce resources to help poorer nations in greater need of assistance. Long-term dependence on ESF runs counter to indicators that Costa Rica's economic recovery is progressing very well.

GUATEMALA - AID FOR STREET CHILDREN

SENATOR LEAHY: As you are probably aware, nearly 55 percent of the population of Guatemala is classified as living in extreme poverty. (Source: UNICEF) Increasingly, this poverty is becoming concentrated in urban areas. In 1985, 41 percent of all Guatemalans lived in urban areas. By 2000, more than half of the country will live in major urban centers. (Source: World Bank)

One of the results of this increase in urban-based poverty is a growing number of children working and living in the streets, principally in Guatemala City. UNICEF estimates that there are 1.5 million working street children in Guatemala and between 1,000 and 1,500 children living on the streets in Guatemala City. Tell us what efforts are being made to include these children and their families in U.S. development assistance efforts.

MR. SCHIECK: The ongoing and planned assistance program for Guatemala focuses on realizing rapid and sustained economic growth, strengthening Guatemala's democratic institutions, and achieving greater participation of all Guatemalans in the generation and benefits of that growth. While no A.I.D. direct assistance to street children in Guatemala City or other urban centers is presently underway, indirect assistance reaches many of these children through programs with various sectoral ministries, including primary education, child survival and basic health services. In addition, there are various NGOs in Guatemala - such as Child Hope, Christian Children Fund and Caritas - which have specific programs designed to assist directly street children in Guatemala City and other other urban centers.

CENTRAL AMERICA - AID FOR CHILDREN

SENATOR LEAHY: Civil war in El Salvador and Nicaragua, as well as insurgency and counter-insurgency conflict in Guatemala, has left thousands devastated in Central America. According to UNICEF, 130,000 children have been affected by armed combat in El Salvador, nearly 200,000 affected in Guatemala, and 100,000 refugee children in Mexico (from Salvador and Guatemala), not to mention the untold thousands in Nicaragua. Since the U.S. has played a major role in most of these conflicts, what are we doing to aid those affected by war in Central America?

MR. SCHIECK: Our assistance programs to Central America support programs which benefit local populations as well as displaced persons and refugee populations, to the extent that refugees are living outside of camps, as well as the externally displaced, many of whom have been integrated into the economic and social fabric of their new countries after five to ten years of residency. A.I.D. programs have provided $72.5 million (of a total program of $130 million) for families displaced by the conflict in El Salvador, $7.5 million to the Miskitos in Honduras, and $150.0 million in humanitarian assistance to the Nicaraguan Resistance and their families. On-going A.I.D.-supported programs are working in several areas which directly impact those who have been either displaced by conflict or suffer from inadequate social service infrastructures which have been interrupted due to conflict--rural development, health, education, municipal development, housing, sanitation and agriculture. The victims of conflict or instability tend to be the disadvantaged poor who are the targets of development projects. In addition to these bilateral programs, there are our annual contributions to UNHCR, UNDP, and UNICEF activities in Central America. PL 480 Title II food resource flows to the region are also substantial - $8.4 million in FY 89 to the World Food Program and $18.8 through PVOs.

Both Honduras and Guatemala are classified as "Child Survival Emphasis Countries", and El Salvador is also considered a high priority country in this activity. This translates to increased child survival funding, $6.4 million in FY 89, dedicated to programs to reduce infant mortality, increase immunization coverage and improve access to and use of oral rehydration salts. While these programs are not specifically targeted to victims of conflict in the region, they are working to improve the survival rate of all children. Specific programs in El Salvador, Honduras and Costa Rica have been designed to assist those children directly impacted by the conflicts in El Salvador and Nicaragua.

In El Salvador, A.I.D. began working with the displaced population in 1986. Working with the Government of El Salvador and private voluntary organizations, the displaced have been provided with food, health services, and temporary jobs. The numbers of displaced are presently declining, from a high of 405,000 in 1986 to an estimated 150,000 in May 1988.

Additionally, A.I.D. is implementing a strategy for strengthening and improving rehabilitation services for civilian amputees in El Salvador. The program consists of three components: an emergency program to refer complicated cases to U.S. medical/surgical facilities for treatment (completed 12/88), a temporary prosthesis program (completed 12-88), and a comprehensive rehabilitation program which includes establishment of a prosthetic manufacturing workshop, as well as development of resource networks (ongoing). To date, $4.415 million has been obligated for these activities. These programs benefit civilian amputees, both adult and children, mostly victims of the conflict.

In Honduras, Costa Rica and Nicaragua, programs funded within the Nicaraguan Democratic Resistance assistance package have provided $13.5 million for short-term medical and other relief to children who are victims of the Nicaraguan civil strife. Currently five private and voluntary organizations and one international relief organization are implementing activities delivering prosthetic devices and rehabilitation services; reconstructive, orthopedic and plastic pediatric surgery; primary health care services (medicines, immunizations, oral rehydration salts, etc.); feeding assistance, and clothing and personal hygiene items. Approximately 50,000 children have directly benefited from these programs.

DEBT RELIEF

SENATOR LEAHY: The need for debt relief and major development assistance continues to be critical for Latin America. The recent riots in Venezuela, for example, may only be a hint of the civil unrest to come. In Brazil and Mexico, the largest debtors in Latin America, millions of unemployed and marginalized youth could be next to riot. UNICEF estimates that there are 17 million working street children and youth and 7 million homeless youth in Brazil, and 10 million working street youth and 250,000 homeless in Mexico. Are we providing adequate debt relief and development assistance in these countries, or might these youth be the next to riot?

MR. SCHIECK: The U.S. Government has continually sought to work to resolve international debt and development issues. On the debt side, the Secretary of the Treasury, who plays the lead role within the U.S. Government, has been actively working to promote more flexible approaches to solution of debt issues.

On the development assistance side, the U.S. Government has suppported the multilateral agencies -- the World Bank, the

Inter-American Development Bank, and the International Monetary Fund — in their efforts to support sustainable economic development in the major debtor countries. We recently achieved international agreement on a major capital increase for the Inter-American Development Bank, which will substantially increase that institution's capacity to support economic development in Latin America.

A.I.D. does not have bilateral assistance programs in either Brazil or Mexico which can meaningfully address debt relief or development problems requiring large resource transfers. We do maintain a limited presence in both countries under our Advanced Developing Country (ADC) program. Under the ADC program, we provide modest support for such areas as narcotics awareness, training, microenterprise development, AIDS awareness and environment. We support private voluntary organizations and other activities which encourage linkages between U.S. citizens and institutions and their counterparts in ADC countries. We consider that these activities promote mature ties by leveraging complementary private funding, and reinforcing a common approach to economic, political and social problems.

QUESTION SUBMITTED BY SENATOR TOM HARKIN

NICARAGUAN REFUGEES

SENATOR HARKIN: In response to the conclusions of the Kissinger Commission, the Congress established a student exchange program with Central America called the Central American Scholarship Program, or CASP. That program, administered by the U.S. Agency for International Development and operated by Georgetown University, now sends to U.S. community colleges hundreds of young people from every Central American country, with the exception of Panama and Nicaragua. What is your position on that program recruiting and sending to U.S. community colleges young people from Nicaragua?

MR. SCHIECK: As you know Senator, current legislative restrictions prohibit U.S. economic assistance to Nicaragua including for the purposes of training. Under Section 620(Q) of the Foreign Assistance Act of 1961, as amended, as well as the Brooke Alexander Amendment in appropriations legislation, A.I.D. may not provide official developmental assistance to either the Government of Nicaragua or to private entities or individuals in that country. These prohibitions apply to any country in default on repayment of loans made by the United States Government and to all citizens of that country no matter where they reside.

However, the idea of providing training for Nicaraguan refugees in community colleges in the United States and other institutions may be worth exploring. While currently relations between the Government of Nicaragua and the U.S. Government remain strained, training young Nicaraguans for the future could be a worthwhile investment not only in terms of human resource development, but also in terms of improved understanding and better relations between the two countries. The provision of training would be predicated on the assumption that if and when democratic reforms take place in Nicaragua, it would be beneficial to have qualified, well-trained Nicaraguans with exposure to our democratic society and free market economy available to assume leadership roles in the reconstruction and development of their country. We do consider democratization in Nicaragua a precondition to any U.S. assistance, but this kind of program might be seen in a slightly different, forward-looking context. For the present, I would not see training provided through the Nicaraguan government, but rather through private entities in Nicaragua and elsewhere in Central America where thousands of Nicaraguans currently reside.

If Congress were willing to make exceptions to existing legislation, an appropriation for new and additional funds would be required, since current education human resources programs are fully committed for already existing country specific development activities.

SUBCOMMITTEE RECESS

Senator **Leahy**. The subcommittee will stand in recess until Tuesday, July 11, when we will meet to continue our public witness hearings.

[Whereupon, at 12:43 p.m., Friday, June 23, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, July 11.]

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